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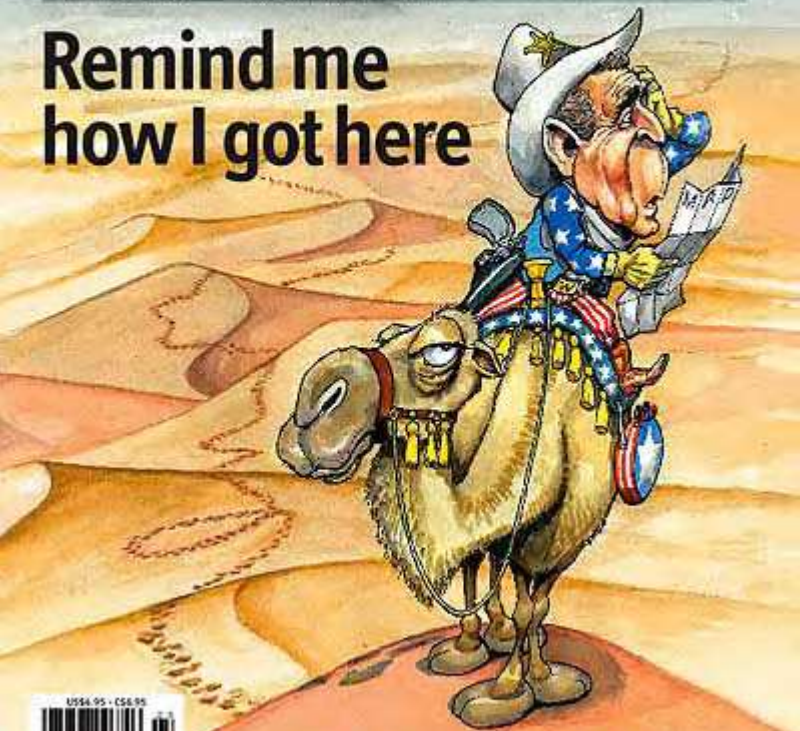

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Politics this week

May 27th 2004
From The Economist print edition

The handover of Iraq

EPA

George Bush delivered the first of six speeches intended to reassure voters that he has a clear plan for handing sovereignty back to the **Iraqis** at the end of June. At the same time, America and Britain circulated a draft UN Security Council resolution describing the powers of an interim Iraq government, but France and Russia said it was too vague and gave America too much control. Mr Bush said that the Abu Ghraib jail, where the abuse of Iraqi prisoners took place, would be demolished.

See article

Muqtada al-Sadr, the anti-American cleric whose militia had occupied Iraq's holy city of Najaf, was reported to be preparing to withdraw his fighters.

At its annual summit, the 22-member **Arab League**—amid scepticism from Arab intellectuals—said its members would embrace political reform and promote women's rights.

See article

In local elections, **Lebanon's** militant Islamist Shia party, Hizbullah, won more seats than any other.

See article

Sudan's government signed a peace deal with rebels of the Sudan People's Liberation Army, bringing hopes of an end to a civil war that has lasted for decades. But bloodshed continues in a separate conflict in the western region of Darfur.

See article

Namibia's president, Sam Nujoma, told a rally that some white people are “snakes” who want to recolonise the country. With an election looming, Mr Nujoma is overseeing aggressive land redistribution. He also sacked his foreign minister, Hidipo Hamutenya, who had been tipped to succeed him.

Bingu wa Mutharika, a 70-year-old economist and protégé of ex-President Bakili Muluzi, was sworn in as **Malawi's** new head of state after an election most observers deemed unfair. Brief riots ensued.

Robert Mugabe, **Zimbabwe's** president, called Nobel peace-prize winner Desmond Tutu an “evil and embittered little bishop”, after Bishop Tutu criticised him. He also denied that his country was short of food or that his police tortured dissidents.

India's new faces

India's new Congress-led coalition government took office. The nomination of a reformer, Palaniappan Chidambaram, as finance minister reassured markets, but the new line-up was criticised for lacking new faces. This week too, 33 people died in an attack on a bus in the disputed region of Kashmir.

See article

Japan's prime minister, Junichiro Koizumi, returned from North Korea with five children of surviving Japanese citizens abducted 25 years ago. He was criticised for agreeing to resume humanitarian aid without obtaining a convincing explanation of the fate of others who are thought to be dead.

See article

Senior military officers from **North** and **South Korea** held talks aimed at reducing tension along the border. North Korea agreed to consider proposals to improve military communication. Further talks are expected next month.

Over four years after its exclusion, after a military coup in 1999, **Pakistan** was readmitted to the (formerly British) Commonwealth.

See article

A chance for reform

As expected, Horst Köhler won election as the next president of **Germany**. The former boss of the IMF may help the cause of economic reform.

The UN high representative in the troubled Serbian province of **Kosovo**, Harri Holkeri, resigned. The former Finnish prime minister was in poor health, but he also complained that he had not had enough western backing. Two months ago violence erupted between Kosovo's Albanians and Serbs, setting back hopes for a peaceful future there.

In his annual state address to parliament, President Vladimir Putin promised once again to double **Russia's** GDP by 2010. Earlier, the Russians reached agreement with the EU over the terms for their accession to the WTO; in exchange, Mr Putin made renewed (but still vague) promises to ratify the Kyoto protocol on climate change.

See article

A section of a new terminal building at **Paris's** Charles de Gaulle airport collapsed, killing four people. The cause is not yet known, but it is possible that the entire building will have to be pulled down.

See article

America on alert

John Ashcroft, America's top law official, said that “credible intelligence from multiple sources” indicated that **al-Qaeda** is planning a big attack in America during the summer. But Tom Ridge, the homeland security secretary, said that there were no plans to raise the national level of alert from “elevated”.

The **Supreme Court** ruled that David Nelson, a convicted killer on death row in Alabama, could appeal against the method of his execution. He argues that death by lethal injection is a “cruel and unusual punishment”, given the damage to his veins from years of drug abuse.

The FBI issued a rare public apology to Brandon Mayfield and said it would review its guidelines for analysing **fingerprints**. A federal judge dismissed the case against Mr Mayfield, a lawyer from Oregon held in detention for an alleged connection to the Madrid bombings last March.

Boston's **Catholic church** announced that it was closing 65 of its 357 parishes. Archbishop Sean O'Malley said the decision was based on falling attendance. Last autumn, the archdiocese reached an $85m out-of-court settlement with victims who alleged sexual abuse by the clergy.

After the storm

AFP

Some 2,000 people were reported killed and thousands more made homeless

on the island of **Hispaniola** after torrential rains triggered floods and landslides in a border area between the Dominican Republic and Haiti.

See article

Paul Martin, **Canada's** prime minister, called a general election for June 28th. Having succeeded Jean Chrétien last December, Mr Martin is seeking a mandate of his own. But polls suggest his Liberal Party may be reduced to a minority government.

See article

Bolivia's president, Carlos Mesa, said that a referendum on his country's oil and gas industries would be held on July 18th. The questions include proposals to expand the role of the state-owned oil company and increase taxes on multinationals.

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Business this week

May 27th 2004
From The Economist print edition

Alstom rescued

The European Union agreed to allow the French government to bail out **Alstom** with a *euro*2.5 billion ($3 billion) cash injection in return for a stake of some 31% in the struggling engineering group. In return, Alstom must acquire at least one industrial partner within the next four years and make some divestments.

Royal Dutch/Shell restated its reserves for a fourth time after a scandal that has already claimed senior scalps and battered its reputation. The Anglo-Dutch oil giant was forced to make the downgrade and restate profits for 2003 ahead of publication of its much-delayed annual report.

Finmeccanica, Italy's leading defence contractor, agreed to pay *euro*1.5 billion ($1.8 billion) to **GKN** for the 50% of AgustaWestland that it does not already own. The British engineering group will use proceeds from the sale of its stake in the helicopter firm to pay off debt and to fund acquisitions.

See article

SABMiller formally launched a takeover bid for Harbin Brewery, valuing the Chinese beermaker at HK$4.3 billion ($550m). The London-listed South African brewer could become embroiled in a bidding war with America's Anheuser-Busch, which recently bought a 29% stake in the Chinese firm.

A Moscow court ordered **Yukos**, a big Russian oil company, to pay $3.5 billion claimed by the tax authorities. More claims may follow and Yukos is unlikely to survive in its present form.

Calling for compromise

SBC Communications reached a tentative agreement with unions representing 100,000 employees as workers returned from a four-day strike. The American local-phone company agreed to wage increases and a lay-off ban but will raise the cost of health-care schemes.

Deutsche Telekom expanded its mobile-phone business in America with the acquisition of networks from Cingular Wireless for $2.5 billion. The German telecoms giant is to buy out a joint-venture and take over networks in California and Nevada.

Softbank, a Japanese high-tech investment group, said that it would buy **Japan Telecom** from Ripplewood for around ¥340 billion ($3 billion). The American private-equity firm acquired the big fixed-line telecoms firm from Vodafone last year for ¥261 billion.

Vodafone offered £2.6 billion ($4.7 billion) to buy the 33% of its Japanese subsidiary that it does not own. The world's leading mobile-phone operator also revealed an annual loss of £5 billion after charges of £15.2 billion and pledged to return £3 billion to shareholders and raise dividends. But its shares sank on fears that the firm is about to embark on another costly acquisition spree.

The game's up

Toys "R" Us accused **Amazon** of not playing nicely. The big American toyseller launched a lawsuit accusing the internet retailer of reneging on a deal giving it exclusive rights to sell toys and games on the Amazon website. Amazon denies the charge.

Big tobacco companies suffered a legal setback after a judge ruled that America's government could go ahead with a case that seeks some $280 billion of past profits. The government alleges that firms misled the public about the risk of smoking in a conspiracy starting in the 1950s.

Pay-back time?

Eliot Spitzer, New York's populist attorney-general, set his sights on **Dick Grasso**, until last year boss of the New York Stock Exchange. Mr Spitzer filed a lawsuit to recoup some $100m, more than half of Mr Grasso's controversial pay package, alleging that it violated New York's Not-for-Profit Corporation Law in that it was neither “reasonable” nor “commensurate with services provided”. Mr Grasso, promising to countersue, said the case “smacks of politics”.

See article

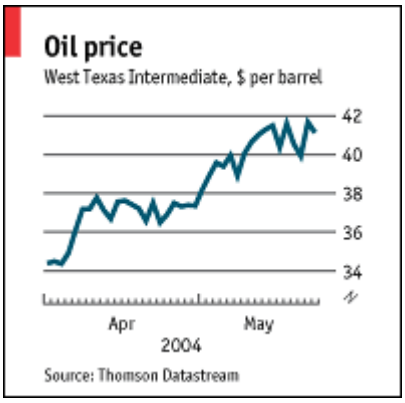
Italian prosecutors investigating **Parmalat** have called for 29 employees and three financial institutions to be put on trial for crimes in the Italian food group's financial scandal. An attempt in March to have the same 32 put on a fast-track trial failed.

Wells Fargo agreed to buy most of **Strong Financial** for a rumoured $500m a few days after the troubled firm and its founder agreed to pay $140m to settle charges relating to the improper trading of mutual funds. Strong manages assets worth some $34 billion.

Checking the oil level

Oil hit a record high of nearly $42 a barrel as finance ministers of the G7 countries appealed to producers to lift output to control soaring fuel costs. Prices fell back a little after Saudi Arabia promised to increase its output and to persuade reluctant OPEC members to raise production when the oil cartel meets on June 3rd in Beirut.

See article



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America and Iraq

Remind me how I got here

May 27th 2004
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George Bush will not rebuild confidence in Iraq by over-selling its new government

Get article background

HIS father lost the 1992 election in spite of having won a famous military victory in the sands of Arabia. It now looks possible that in November George Bush will lose the presidency because of one. Over the past few months a variety of reverses in Iraq—the uprisings in Fallujah and Najaf, the scandal of Abu Ghraib—appear to have up-ended American opinion about the wisdom of the invasion.

For much of the first year of occupation, most Americans showed commendable patience. They continued to give their president the benefit of the doubt even when confronted with unwelcome surprises, such as the non-discovery of the weapons of mass destruction with which Saddam Hussein was said to have been threatening America, or the apparently inexplicable decision of many Iraqis to take up arms against the very army that had liberated them from dictatorship.

The benefit of the doubt appears now to have been withdrawn. In April last year, according to the Gallup Organisation, 76% of Americans thought the war had been worthwhile. By last weekend, 52% had come to think the opposite.

Losing the high ground

This should surprise nobody. Public support rested on an assumption that Mr Bush had good reasons for being in Iraq, and a clear idea of how to get out. If the absence of WMD meant that one good reason for being there—removing a mortal danger—no longer applied, there did at least seem to be another: bringing the gift of freedom to the Iraqi people. But the intensity of the violence in Iraq means that it can no longer all be blamed on foreign terrorists from al-Qaeda, or the rearguard action of desperate regime "remnants". Quite plainly, a large number of Iraqis no longer welcome the American presence, if they ever did. Mix in the pictures of Americans torturing Iraqis at Saddam's own jail and you end up with what might turn out to have been a terminal blow to the conviction of the American people that they are sacrificing the lives of their soldiers for reasons they can be proud of.

With November closing in, Mr Bush has delivered the first of six big speeches designed to show the doubters at home that everything is going to plan in the best of all possible plans. He is making a

particular meal of the intended “transfer of sovereignty” at the end of June to an interim Iraqi government. This is being billed almost as if it will mark the end of the occupation. With Tony Blair, he is also using it as yet another opportunity to table yet another Security Council resolution and so win back some of the international support America and Britain lost when they decided last year to go to war without the explicit say-so of the United Nations.

Winning back international goodwill is a good idea; America has discovered the hard way that it easier to win a war alone than to win a peace alone. As for the plan to create a new interim government, this is also, on paper, as good a plan as any. But as in previous phases of the Iraqi saga, Mr Bush is in danger, with Mr Blair's connivance, of over-selling his case. The dangerous thing about this is that he will build expectations too high, and that Iraqis will be the losers when reality eventually bites.

Start with the “sovereignty” that is supposed to be transferred to Iraq's new interim government. This has stirred much debate about whether that interim government will be allowed to ask the occupiers to pull their armies out, or tell those armies what they can and cannot do. Mr Blair, in political trouble of his own at home, says that unless the Iraqis have veto power over military decisions with a political dimension, such as the recent American decision to take on the mutinous city of Fallujah, the transfer of sovereignty would not be “real and genuine”. The Americans, on the other hand, have been allergic since the Balkan wars to the idea of giving any foreigners the final say about what their troops can do.

What's in a word?

Given the balance of forces, there is no prize for guessing who is likely to prevail in this particular debate. The circle can probably be squared by giving the new government some rights to call on the military forces to do this and refrain from doing that. But, like Hotspur in “Henry IV”, it will not know until the time comes whether its calls will be heeded. To those who complain that in this case the sovereignty of the Iraqi government is going to be pretty bogus, the answer of Messrs Bush and Blair ought to be the honest one. Of course it is.

In Iraq's present context, sovereignty is just a word on paper, and not even the most important one. In strict legal terms, sovereignty never left Iraq and cannot be returned by the Americans, the Security Council or anybody else. What really matters is legitimacy and effectiveness. Iraqis are in dire need of a government they can see as their own, and whose writ therefore stands some chance of running throughout the land. This is not what they will get at the end of June.

The American-appointed Governing Council will be superseded by a UN-appointed interim government. It is not impossible, if the appointees are mainly “technocrats” in place of the political leaders on the Governing Council, that this new body may command rather less loyalty than the body it replaces. The Coalition Provisional Authority will become an American embassy. Paul Bremer, proconsul, will be replaced by John Negroponte, ambassador. The occupying armies will be called a multinational force.

At best, these changes of name and status will be a half-way house. They might usefully blur the reality of American military occupation, and make it more palatable for a while. And, of course, the more power America is willing to give up to it, the more serious the new government will seem. But, as the strongest economic and military force in Iraq, America will continue to call the shots. And that is not likely to change until the elections planned for January next year. Only then, once the people of Iraq have had their say, will the country possess a government capable of expanding into the vacuum the dictatorship left behind.

In the remainder of his series of speeches on Iraq, Mr Bush would be doing a service to Americans as well as to Iraqis if he lowered their expectations. In particular, Americans need to accept that no matter how much international support Messrs Bush and Blair succeed in winning back at the Security Council, it is America that will continue to shoulder most of the burden. Even if they wanted to give more help, the other members of the NATO alliance do not have the troops to make much of a difference. Other countries, which held back their troops before because they insisted on UN authority, are just as likely to hold them back now because the dangers have turned out to be so much greater than expected.

These dangers, moreover, are likely to grow as an Iraqi election approaches. That is because although some of the “resistance” is aimed at the Americans, much of it is part of the battle for power that will follow America's withdrawal. One way to make your name in today's Iraq is, alas, to take on the Americans. And the time to do it is before any government has had the opportunity to fortify itself with a popular mandate.

Given all this criticism of Mr Bush's conduct of the war, and given how much has gone wrong, do we still think the war was justified? This paper backed the war because, like Mr Bush and Mr Blair, and their intelligence agencies, we felt sure that Saddam Hussein had kept some weapons of mass destruction and was seeking an atomic bomb. Had we known the unknown, as the Koran says, we would have done better. We also said that although Iraq would be hard to rebuild, and might experience overlapping civil wars, it was hard to imagine a future for it worse than the present it endured under its dictator. That remains our judgment. A better future for Iraq is still possible—provided that, whatever their verdict in November, Americans are willing to stay the course. However bad things look today in Iraq, the alternative remains far worse.

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Canada's election

Martin's mandate

May 27th 2004
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If he is to get it, it should be based on a serious debate

Reuters

WHEN Paul Martin succeeded Jean Chrétien last December as leader of Canada's Liberals, and thus as prime minister, he let it be known that he would seek an election within weeks. Although he had served as Mr Chrétien's finance minister for a decade, the two men were bitter rivals and Mr Martin yearned for a mandate of his own. Only three years of a possible five-year term for the Liberals had elapsed, but an election seemed to make sense—at least to Mr Martin. His party was well ahead in the opinion polls, and the opposition was divided. Until a slowdown last year—partly induced by an outbreak of the SARS respiratory disease—Canadians had basked for several years in steady growth and balanced budgets.

Last weekend, Mr Martin at last called the election—for June 28th, two months later than planned. Why the delay? Over the past few months, sudden squalls have darkened the horizon for the Liberals. The opinion polls suggest that the ruling party may end up swapping a comfortable majority for a precarious minority government. Far from the confident gambit imagined in December, the election now looks like a panicky recognition that further delay risks heavier defeat.

The Liberals have been in office since 1993. An end to their automatic hegemony is good for Canada. Two things have caused it. First, the country now has the makings of a national opposition, after the recent merger of the western-based Canadian Alliance with the Progressive Conservatives. The Liberals can no longer win by default. Second, they have been hurt by a corruption scandal involving a publicity campaign promoting federalism in Quebec which was used to funnel C$100m ($73m) to their cronies. It happened on Mr Chrétien's watch, and Mr Martin was quick to call for an independent inquiry. But the affair has led some Canadians to conclude that the Liberals have been in power too long. Mr Chrétien's decision to cling to office for 18 months after announcing his retirement smacked of putting personal ambitions above the country's needs. So, perhaps, does Mr Martin's thirst for his own mandate: he is prime minister, not president.

More competition among the parties means that the campaign ought to produce a debate over the policy choices Canada faces. It needs to maintain the trust of the United States by careful management of its disagreements with its powerful neighbour. The public health-care system, in many ways admirable, demands ever more cash. So does defence, neglected in recent years. The finances of many provinces are unravelling. But Canadian taxes are already higher than those in the United States—and Canadian incomes buy some 15% less than those of their southern neighbours.

How to keep health care healthy

Yet will voters actually hear serious discussion of these issues? The newly-merged Conservatives would like to see more private investment in the delivery of publicly-financed health care. So would the health minister, Pierre Pettigrew. But any sort of adult discussion of the reform of health care is considered politically explosive: for many Canadians, Medicare is a touchstone of national identity. So the Conservative leader, Stephen Harper, prefers to campaign against Liberal sleaze. This is in part, perhaps, because his own party is not yet an alloy: the old Red Tories of the Progressive Conservatives are unhappy with the small-government agenda and social conservatism of the former Alliance, from which Mr Harper comes.

For his part, Mr Martin, who as finance minister presented himself as a tax-cutting fiscal conservative, promises an extra C$3 billion a year for health and other social programmes—with no reforms attached. That may be because he knows he may have to form a coalition with the leftish New Democrats.

Canadians deserve better than this. Their country has done well under the Liberals, forging a distinctive amalgam of a North American economy with a European welfare state, while remaining as open to migrants as the United States. But this balancing act requires a constant weighing of priorities. A competitive election should mean a serious debate, not sloganising and evading the issues. It is not too late to have one.

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Japan

Black-belt Koizumi

May 27th 2004
From The Economist print edition

AFP

Japan's prime minister has had another skilful escape. Not so his opponents. The voters may be the biggest losers

Get article background

IT CAN'T be much fun taking on Junichiro Koizumi at judo. You pin him to the mat: with a neat swivel he wriggles free. You close in for the winning throw, and he deftly trips you, sending you flat on your back and scoring the winning *ippon*.

That is how the Democratic Party of Japan (DPJ) must feel. Things looked good at the start of the month, with news that senior members of the ruling Liberal Democratic Party (LDP) had failed to pay contributions into the national pensions system, mandatory for MPs since 1986. Naoto Kan, the DPJ leader, started hammering away at the miscreants. Mr Kan is a relatively popular and even a charismatic figure: he gave the LDP a bloody nose in last November's general election, and he was hoping to follow this up with further gains in the vote, in July, for half the seats in the upper house of parliament. Under his leadership, a genuine two-party system that has proved so elusive in Japan seemed at last a possibility. On May 7th he drew blood, forcing the resignation of the cabinet secretary, Yasuo Fukuda, a close ally of the prime minister.

Sadly, Mr Kan had neglected to take the precaution of ensuring that his own payments were in order. They were not. Now Mr Kan has been forced out. The man tipped to succeed him, Ichiro Ozawa, then pulled out as well, embroiled in the same scandal. After an embarrassing period of casting about, the DPJ now has a new leader, Katsuya Okada. He has the virtue of youth (he is 50, Mr Koizumi 62), but also obscurity.

The DPJ was fighting back late last week, when it was revealed that Mr Koizumi, too, had missed some payments. These, like Mr Ozawa's, dated to before 1986 but, the opposition argued, it was a lawmaker's duty to set a good example, even if payment was not obligatory. And it looked bad that Mr Koizumi had failed to disclose the omissions. But at the weekend, he pulled off a bold counter-strike, by flying to North Korea. It was risky: Kim Jong-il, North Korea's reclusive despot, is nothing if not unpredictable. But Mr Koizumi got what he went for: five North Korean-born offspring of Japanese abducted by North Korea during the cold war. The parents had been freed in 2002, but Mr Koizumi has now reunited them with the relatives they had to leave behind.

Mr Koizumi has been much criticised. He failed to get news of another ten missing people—North Korea says they are dead—despite handing over $10m and 250,000 tonnes of food. He secured no indication that North Korea would prove more tractable in talks about its illicit nuclear programmes. Nonetheless, the wily prime minister emerged the winner. His poll ratings shot up by about ten points, to levels that are stellar for any Japanese prime minister, let alone one who has just completed his third year in office. Before Mr Koizumi, Japan had got through seven prime ministers in eight years.

The biggest worry for Mr Koizumi may in fact be that the opposition is now so weak. He claims to be a reformer, and has always depended on his personal bond with the voters to impose change on his own, reluctant party, which knows it cannot do without him. But now, with the economy perking up and the DPJ in disarray, he may, paradoxically, find the going harder. All his most cherished plans—reform of road-building, post-office privatisation, deregulation of services, a rethink of Japan's outdated security policy, attempts to tackle the huge budget deficit—have been eviscerated by his own side. A good opponent is what Mr Koizumi, and Japan, now need. Everyone must hope Mr Okada is up to the task.

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Measuring economies

Garbage in, garbage out

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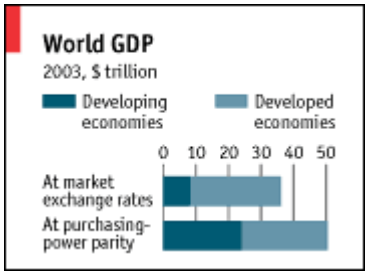
From The Economist print edition

Commonly used, but flawed, measures of economic output can lead to bad decision-making



HOW big is the world economy? That sounds like a straightforward question. Simply to add up the size of all the world's national economies would seem to be the obvious way to answer it. But how that is done yields radically different results, and therein lies a tale. The most commonly used method is to convert national economic outputs to a single measure, namely the American dollar, using the market exchange rates of all the national currencies. That produces a figure of $36 trillion for 2003. But many professional economists think that it makes much more sense to use what they call purchasing-power parities (PPP), which take account of differences in prices of the same goods between countries, and so tries to measure the real purchasing power of inhabitants in each country, no matter what the world's fluctuating currency markets happen to be doing to exchange rates. Using this method, the world economy last year was worth $50 trillion.

The precise size of the world economy may not matter much from a policy point of view, though a $14 trillion difference is hardly small change. However, which method of measurement is used also affects more important matters: the global rate of growth, the relative size of economies, and the extent of inequality between rich and poor. In these cases, using market exchange rates can produce misleading results and hence stimulate bad policies.

The best reason for not using market exchange rates is that prices tend to be lower in poorer countries, so a dollar of spending there is worth more. Market rates therefore understate their real level of development (see article). Indeed, measured at market rates, developing economies' share of global income has fallen over the past two decades, to less than one quarter. This would back the claims of the anti-globalisation lobby that poor countries are being left behind. Yet measured at PPP, developing economies' share of world income has risen over the same period, to almost half of the total, which gives a more realistic impression.

Hot air

PPPs are not always appropriate. Trade and capital flows which, unlike the bulk of GDP, are actually transacted at market exchange rates, should be converted at those rates into dollars. And businesses which trade internationally and have to convert revenues and profits to dollars are often more interested in the dollar purchasing power of various national markets than their real level of economic prosperity, so for businessmen the market-exchange-rate measure matters more.

But for government policymakers, this measure can be seriously misleading, and they ought to pay more attention to PPP. One glaring example, to which *The Economist* drew attention last year, is the analysis of the Intergovernmental Panel on Climate Change. Ian Castles, a former head of the Australian Bureau of Statistics and David Henderson, formerly chief economist of the OECD, have exposed flaws in the IPCC's projections of future emissions of greenhouse gases. The IPCC's forecasts of global output are based on national GDP converted to dollars using market exchange rates. They also bravely assume that most of the gap in average income between rich and poor countries will be closed by the end of this century, even while the rich continue to get richer. Because using market exchange rates overstates the initial gap in average income between rich and poor countries, this results in improbably high projections of GDP growth in developing countries, much faster than has ever been achieved before. As a result, the IPCC's projections of future carbon emissions, on this basis alone, are probably overstated.

The IPCC claims that measuring at PPP or market exchange rates does not affect the economy any more than a switch from degrees Celsius to Fahrenheit alters the temperature. But the analogy is wrong. PPP and market exchange rates, unlike Celsius and Fahrenheit, are measuring different things. That should not be too hard an idea for scientists to grasp.

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Sudan

Peace in the south, war in the west

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A breakthrough in one civil war; the other still rages

AFP

THE world's longest-running war is ending. After 2m deaths and matchless misery, Sudan's southern rebels have come to terms with the government in Khartoum. On May 26th, John Garang, leader of the Sudan People's Liberation Army (SPLA), and Ali Osman Taha, the country's vice-president, signed protocols removing the last obstacles to a formal peace deal, which should follow within weeks. The 4m people displaced by the war, which has raged on and off since independence in 1956, can finally go home. It is time to celebrate.

But not unreservedly, for two reasons. One is that the soon-to-be-formed transitional regime is unlikely to be a pleasant one. After six years, the mostly non-Muslim south will hold a referendum on whether to secede from the Muslim north. But in the meantime, the government and the SPLA will share cabinet posts and oil revenues. Neither party has ever shown much respect for democracy, and both have striven to minimise the share of power allotted to unarmed civilians in the transitional government. Still, autocracy is better than war.

The other, even bigger problem is that a separate civil war in western Sudan, which began last year, is getting worse by the day, and spilling over into neighbouring countries (see article). To crush a revolt by black Africans in the western region of Darfur, the government has armed an Arab militia and ordered it to drive blacks out of their homes. More than a million have fled. In much of Darfur, the ethnic cleansing is complete. Our correspondent, riding for four days across the savannah last week, encountered village after burned and gutted village, but fewer than a dozen civilians. The rest had run away, either into miserable camps within Sudan, where the government sometimes deliberately starves them, or into neighbouring Chad. Aid workers have been permitted only limited access to the displaced. Some say that hundreds of thousands of people will die in the next few months if the government continues to obstruct relief efforts.

Morality, and danger

The West should pay attention to Sudan. Mostly it should do so for moral reasons: Darfur is probably the world's worst humanitarian crisis. But self-interest is also at stake: Sudan used to host Osama bin Laden, and is now exporting the kind of chaos that could provide cover for his acolytes. Terrorists with alleged links to al-Qaeda are already using the mountains of northern Chad as a base. Chad's government, which

is currently working with America to flush them out, is threatened by the war in Darfur.

Sudanese rebels and refugees have crossed into Chadian territory: the militiamen who kill for Khartoum have pursued them, and come to blows with the Chadian army. There was a coup attempt in Chad last week, almost certainly linked to the Darfur conflict. Unchecked, Darfur's war could destabilise the whole sub-region, from the Libyan desert down to the rainforests of the Central African Republic.

It was a combination of exhaustion and western pressure that persuaded Khartoum to make peace with the south. More pressure could help pacify Darfur. The first priority is to get aid to the displaced, to prevent them from starving. There needs to be a proper ceasefire in Darfur, monitored by the UN's blue helmets. Khartoum must rein in its militia and address the grievances of the rebels there. It should be rewarded with aid if it does, and chastised with sanctions if it does not.

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Letters

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India's not shining

SIR – Americans may react with shock that the BJP were voted out of office in India's election ("The shine comes off", May 15th). After all, they are inundated with news of jobs migrating there and growth running at 8% a year. But the BJP'S slogan, "India Shining", is true only if you are one of the million or so fortunate to be employed in high-tech or by foreign-based companies. These mostly young, well-educated, English-speaking workers spend vast sums in the western-style bars, restaurants and shopping malls, dress in the latest fashions, drive their own cars and live in air-conditioned splendour.

Turn the corner and you see the other India. Unemployment at 40m and 300m people living on less than $1 a day; a country mired in poverty and hopelessness. The elite and every level of officialdom are riddled with corruption. The ordinary citizen cannot get ahead without being under-handed and willing to pay a bigger bribe than his neighbour.

John Millea
New York

SIR – Democracy does not function the way that it should in countries that have a low literacy rate. By bringing about a booming economy and good relations with Pakistan, the BJP proved itself the best government India has ever had. The average voters do not know what GDP is, yet these people control who governs India. The Congress party cannot maintain the buoyant economy bequeathed by the BJP because of pressure from the left. India will soon end up in the economic hole from which it took so long to emerge.

Ram Kolluri
Oakland, New Jersey

SIR – The defeat of the BJP should be welcomed by the West. Its record is one of more than two decades of dangerously extremist Hindu nationalism that has resulted in thousands of deaths and a climate of fear for many Indians. This cannot be overlooked by pointing to recent economic growth. Admittedly, the BJP successfully continued the economic reforms started under Rajiv Gandhi's Congress government in the early 1990s, but these reforms have benefited only the few.

Ryan Goss
Brisbane

SIR – Please never forget that reforms in India did not come about by choice. They were forced on the politicians of the day by economic bankruptcy. It will be many years before you can justifiably give Indian politicians credit for voluntarily choosing a sensible policy. Who in India even today, for example, makes population levels and increases an issue?

Shivdas Balsekar
Mumbai

Best China

SIR – China is in good shape ("The great fall of China", May 15th). Chinese continue to save nearly 40%

of their income and have comparatively little debt. Their problem is that they have few places to put their savings that will generate a reasonable rate of return. This is a big part of the reason for overheated property prices in China's big cities. China's current period of growth shows many similarities with the American economy between 1865 and 1929. While there were recessions during that period, they are generally seen as quick corrections to a rapidly growing new economic power, which was eclipsing Europe as the world's engine of economic growth.

Paul Denlinger
San Jose, California

Cross-border learning

SIR – British universities are prominent in the booming business of foreign students but the issues raised are global ("New angles on degrees", May 8th). Our estimate of the international market put the figure at around $30 billion some years ago, and it has grown substantially since then. Our analysis, to be published later this year, also shows that revenue generation is only one rationale for universities that seek to attract foreign students to enrol at home or abroad. Some countries, or institutions within them, seek to fill domestic skills gaps by attracting and retaining foreign students with high qualifications in certain areas. In other cases, the goal may be to promote international communication, culturally as well as academically, and to build capacity within the sending countries.

You are right that the market is becoming more conscious of quality both because of increased choice and as dubious offerings proliferate. This is why the OECD is working with UNESCO to produce guidelines on quality assurance in cross-border higher education.

Tom Schuller
OECD
Paris

Fare enough?

SIR – You unjustly call airBaltic, Latvia's national airline, a low-cost carrier ("Spreading wings", May 15th). AirBaltic's claims to be a low-cost carrier are not reflected in its fares. Furthermore, rumour has it that it is actively lobbying to keep other low-cost airlines out of Riga.

Martin Horseling
Riga

Schwimmer not sinking

SIR – There are people—including, allegedly, Georgia's president—who might think that I am "impudent" ("A breath of fresh air?", May 15th). For others, like you, I am not impudent enough. But this is not what matters to the Council of Europe. As Chris Patten writes in his foreword to my book, "The European Dream", what does matter is: playing a vital role in realising the dream of bringing peace and stability to this continent; working tirelessly to turn the vision of a united Europe into reality; and enshrining human rights, parliamentary democracy and the rule of law in the psyche of its member states and its citizens. To achieve all this requires a leader with experience, efficiency and enthusiasm. "A breath of fresh air" will not be enough.

In 1999, when I took office, *The Economist* called me a "timid moral policeman". Yet during my term of office I have strengthened the political impact of the pan-European Council of Europe, which, over the past five years, has enlarged from 41 to 45 member states. It has gained in terms of visibility and in terms of modern management. Beyond this, I continue to address difficult situations such as in Chechnya, the Balkans, southern Caucasus, Moldova and Ukraine. In many cases, there has been real progress, even if it did not make the headlines. I see this as my duty and that is why I am seeking a second term as secretary-general.

Walter Schwimmer
Secretary-general
Council of Europe
Strasbourg

Root and branch reform

SIR – You tell us that noble rootstock was re-imported to France from American vineyards after French vines were ravaged by *phylloxera* in the late 19th century ("A battle lost and won", May 8th). The Cousiño family, among others, had brought top quality French rootstock to Chile in the 1880s and this was also used to save the French wine industry from annihilation. Don't give those Californians all the credit.

Jean Nelson
Santiago

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America and the Middle East

Fumbling the moment

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How big a mess is America in, and how did it get there?

JUST over 40 years ago, Elizabeth Monroe, an historian (and *Economist* journalist), wrote a book called "Britain's Moment in the Middle East". The work is out of print and hard to find, but it has been enjoying a revival. It explains how Britain tried between 1914 and 1956 to secure access to the Middle East's oil, reform the region's politics and reconcile the competing aspirations of Arabs and Jews in Palestine. Over the past year assorted pundits, from the *Washington Post* to London's *Guardian*, have leapt on Monroe's book to tease out the similarities between Britain's aims then and America's now.

The comparison is irresistible because it is full of ironies. Britain's "moment" ended in ignominy in 1956, when America forced Britain, France and Israel to withdraw from Egypt, which they had invaded in order to unseat an Arab dictator who seemed to threaten their vital interests. Dwight Eisenhower saw this as illegal aggression by an old Europe which refused to accept that the days of empire had passed. Britain itself was deeply divided by the Suez adventure. But those who supported it felt betrayed by an America which, they felt, should have known better than to appease a dictator such as Gamal Abdel Nasser. In just this way, many Americans felt betrayed last year by an old Europe apparently willing to appease Saddam Hussein.

Though just a "moment", the British interlude in the Middle East lasted 40 years, from Britain's displacement of the Ottomans in the first world war until the ungainly exit from Suez. America's moment is arguably just beginning. Some might say that it started in the 1930s, when the United States laid the foundations for a lucrative alliance with the house of Saud and its Arabian oilfields. And, of course, America was deeply enmeshed in the region during the cold war. But it did not emerge as the single dominant power there until the collapse of the Soviet Union. A future Elizabeth Monroe might argue that the American moment did not really begin until 1991, when the Soviet Union let George Bush senior drive Saddam Hussein out of Kuwait, and when Saudi Arabia broke a taboo by letting America's "infidel" forces into the land of the two holy places.

Round and round they go

After that first Gulf war, that first President Bush spoke of a fresh beginning in the Middle East, part of what his administration hoped would be a "new world order". He made a start by breaking the logjam between Israel and the Arabs, forcing both to a peace conference in Madrid that was later to evolve into secret negotiations in Oslo between Israel and the Palestine Liberation Organisation. This was

accompanied by much excitement in the Arab world at the prospect of political reform. The end in pretty short order of the Iran-Iraq war, the cold war and—it was hoped—the cycle of Arab-Israeli wars seemed to offer hope that the Arabs would swiftly join the global march of democracy.

It did not turn out that way. Four years ago the summit at Camp David, which Bill Clinton hoped would crown the Oslo process with a final peace in Palestine, collapsed in failure. The Palestinian *intifada* of the 1980s returned in a more lethal form. Saddam did not, as the first President Bush had expected, fall from power in Iraq. On the contrary, the sanctions tightened his grip on power at the same time as they pauperised his people. Instead of proving that he had dismantled his weapons of mass destruction (WMD), he forced the UN's inspectors to quit in 1998 with their mission unaccomplished. The Arabs enjoyed neither the democracy nor the prosperity that spread elsewhere in the 1990s. And, of course, George Bush senior never reaped the benefits of victory. Within months of celebrating his triumph in the desert, he was turfed out of office.

Now the circle is turning again. A new George Bush has fought a new war against Iraq, completing the job his father did not finish. Now again comes talk of a new era in the Middle East. There is a new peace plan for Palestine. America is once again explaining the virtues of democracy to the Arab regimes, which are once again pretending to agree with it. But, already, the new dawn is beginning to darken. The liberated Iraq is coming to resemble the quagmire opponents of the invasion said it would be. Many of the Shias whom Saddam oppressed have joined the resistance against their liberators. The Americans turn out to have been torturing Iraqis in Saddam's own jail. The killing continues in Palestine. And another American president is facing the possibility of being thrown out of office even as he finishes celebrating a military victory.

One disaster after another

So many reverses, in such short order: a skimmer of headlines can be forgiven for thinking that the American moment in the Middle East is ending, in failure, almost before it has begun. Though Mr Bush and Tony Blair, the war's chief architects, keep saying that they will not cut and run from Iraq, it is taken for granted by shrewd opinion that they are scrambling behind the scenes for an early exit. Among many aficionados of the Middle East, the interesting question is no longer whether the Americans will fail—of course they will, says the received wisdom—but whatever induced them to make such a monumental blunder in the first place.

Needless to say, many of those who pose this question have an answer to hand. Iraq was the wrong war: a distraction from the more urgent business of dealing with al-Qaeda and sorting out the conflict in Palestine. One of the most damaging critics has been Richard Clarke, who on September 11th was still America's counter-terrorism co-ordinator. He claims to have felt “almost a sharp physical pain” when he realised on that day that Donald Rumsfeld, the defence secretary, and Paul Wolfowitz, his deputy, intended to “take advantage of this national tragedy to promote their agenda about Iraq”, even though Iraq had nothing to do with the twin towers.

The “wrong war” thesis has many components. Item one is the non-discovery of the famous weapons of mass destruction. A poll conducted on the invasion's anniversary in March by the Pew Global Attitudes Project found that solid majorities of people in nine countries surveyed—including more than eight out of ten in France and seven out of ten in Germany—think that Mr Bush and Mr Blair lied about WMD to trump up a pretext for the invasion. Most, incidentally, do not think these leaders merely exaggerated or “sexed up” the intelligence. They think they knew for certain before the war that they would find no forbidden weapons.

Item two is the “resistance”: 660 Americans and perhaps 1,300 Iraqis killed since May 1st last year, when Mr Bush declared from the deck of *USS Abraham Lincoln* that major combat operations had ended. If the war was fought in part for humanitarian reasons, to free Iraqis from an odious dictatorship, why are so many Iraqis willing to take up arms against occupying powers that promise anyway to leave the moment the job of implanting a representative government is done?

Item three is the non-breakthrough in Palestine. Part of the pre-war sales pitch held that the removal of Saddam would make progress on Palestine easier. This made sense, of a sort. In a Saddamless Middle East the Israelis could no longer use the threat from the east as a pretext for holding on to the West Bank, and Palestinian rejectionists would be deprived of a cheerleader and paymaster. The road to Jerusalem, said many in Washington to doubting Arabs, led through Baghdad. But was all that just talk? Although Baghdad was conquered a year ago, peace in Palestine looks as remote as ever.

Item four is the sum of the first three: the Iraqi war has added to Muslim resentment of America and thus, it is argued, deepened the reservoir of recruits for Osama bin Laden and al-Qaeda. Though March's Pew survey of Muslim opinion showed a slight softening of anti-American opinion over the course of the year, that finding came before the images of female American soldiers dragging naked Iraqis around prison floors on leashes or grinning over the corpses of prisoners who had died in their custody.

There you have it, the case for the prosecution. America fought the wrong war, on false pretences, without thinking through how to put Iraq back together, and against the background of a continuing bias in favour of Israel that has already cost it dear in the Muslim world. It stands accused both of hypocrisy (in that the reasons it gave for going to war were not the true reasons) and of naivety (in that the superpower should have been able to foresee that an attempt to turn post-Saddam Iraq into an exemplary Arab democracy was doomed to fail). Wittingly or unwittingly, argues Rashid Khalidi of New York's Columbia University, the United States is stepping into the boots of earlier imperial powers. This, he says, cannot under any circumstances be a good thing, and cannot possibly be “done right”.

Knowing the unknown

It is a formidable indictment. But there is a case for the defence.

Right or wrong, was this war fought under false pretences? Despite what so many people tell the pollsters from Pew, there is no evidence that the war's architects knew beforehand that Iraq had no WMD: David Kay, the former UN inspector who led the post-war search, expected to find them and was amazed not to. “We were almost all wrong,” was his memorable confession to America's Congress when he returned empty-handed. In his own book after the war, Hans Blix, the inspector who pleaded vainly before it for a bit more time, accuses Mr Bush and Mr Blair of “a lack of critical thinking”, not of bad faith.

Still, was the question of WMD—the given reason for going to war—different from the true reasons? This part of the indictment demands a longer answer.

At different times Mr Bush and Mr Blair gave many reasons for going to war: enforcing UN resolutions, dealing with weapons of mass destruction, securing oil supplies, saving Iraqis from a dictator, promoting democracy and stopping terrorism. The war's critics see in this miscellany of reasons proof that its champions were casting around for any excuse. There is, however, another explanation, which is that the war was launched because September 11th made the Bush administration review America's fundamental interests in the Middle East.

What are those interests? Above all, access to energy. In 1991, George Bush senior would not necessarily have rescued Kuwait if the region did not happen to contain most of the world's reserves of oil. To ensure safe access to that oil, the United States has worked for decades to see off potential threats: from the Soviet Union during the cold war, from Ayatollah Khomeini after the Iranian revolution, from Saddam Hussein in the 1990s and, in the present, from al-Qaeda and other anti-western groups with the potential to disrupt supply or even seize control of the producer states.

A second longstanding American interest has been to resolve, or at least to dampen, the conflict between Israel and the Arabs. During the early decades of this conflict, America's ties to Israel were not close. France was Israel's chief armourer and protector. But Israel and America have grown steadily more intimate. During the cold war, some American administrations, especially Ronald Reagan's, came to think that a friendly democracy with a competent army might be a strategic asset. And even administrations that took a different view (such as Jimmy Carter's) saw the point of giving Israel the wherewithal to defend itself. A strong Israel, goes the theory, deters its neighbours; a weak one might one day be forced to turn to America to rescue it from invasion.

However, the events of September 11th gave the United States a third and quite new set of aims and interests in the Middle East. One was self-defence against a new kind of terrorism, the sort that could reach out to strike not only at America's energy interests but also at America itself, and at Americans wherever they might be. The felling of the twin towers suggested that it was no longer enough to ask friendly Arab regimes to snuff out terrorism on America's behalf. Most of the hijackers came from Saudi

Arabia, a close Arab ally. September 11th also made Americans less willing to accept other potential threats to the homeland. One of these was the danger of a “rogue” regime such as North Korea, Iran or Iraq acquiring WMD which they might either use to threaten the United States or pass on to terrorists.

Enter the neo-cons

By chance, September 11th fell upon a new and impressionable administration that was already listening with interest to the group of journalists, intellectuals and policymakers known loosely as the neo-conservatives. This group—including Paul Wolfowitz, John Bolton and Douglas Feith inside the administration, Richard Perle on its fringes, and influential journalists such as William Kristol of the *Weekly Standard* on the outside—share views on many subjects. Among these are a belief in the need and ability of America sometimes to use its overwhelming military power, even against the wishes of the UN, and in the exportability of American values.

On top of this, many of the neo-cons had a special interest in the Middle East (because so many are Jewish, say their detractors) and a particular view of why the new dawn of the 1990s had failed to materialise. Cultivating friendly Arab regimes, on their analysis, was no way to keep America safe. Since most of these regimes (including Yasser Arafat's Palestinian Authority) were corrupt dictatorships of one sort or another, America's habit of propping them up had turned the so-called “Arab system” into a factory for anti-American terrorism. In the long run, fighting terrorism would therefore require creating a democratic Arab world at peace with American values.

These notions may be simple-minded but, to return to the indictment, they are not “hypocritical”. They were discussed openly long before September 11th seemed to validate them. The neo-con prospectus also chimed neatly with the aims of the “realists” in the Bush administration who wanted after September 11th to attack Iraq. The realists were keen to remove whatever threat Saddam might pose with his putative WMD. They also, argues John Lewis Gaddis, a distinguished historian at Yale University, hoped to “scare the pants off of anybody—any tyrant anywhere who might in the future be harbouring terrorists, or thinking about harbouring terrorists.” If shock and awe in Iraq was followed by the emergence there of a secular democracy that other Arabs would be keen to copy, so much the better.

In his speech this week, Mr Bush stuck to the line that Iraqis wanted democracy and that, when they acquired it, their example would inspire and change the rest of the region. But the neo-cons themselves are growing queasy. On their view of the Arab world, the Iraqis were expected to greet America's army with flowers, not launch a guerrilla war against it. Perhaps Arabs are not, after all, ready to receive the gift of western values, especially when this is delivered by bayonet. Or perhaps—the opposite of Rashid Khalidi's opinion—the invasion of Iraq was like communism: a brilliant idea which its inventors say could have worked had it only been “done right”.

America's handling of this war has indeed been maladroit. The war itself was swift enough, but both the preparation for it and the handling of the aftermath could scarcely have been more incompetent. America went into the war with duff intelligence on WMD, few serious allies and a feud between the Defence and State Departments about how the post-war occupation should be handled. The occupation has seen endless confusing changes in the plans for political transition, an army too small to provide basic security and the shocking saga of Abu Ghraib. Yale's Mr Gaddis, who had considerable sympathy with the grand strategy, says the implementation of it has been so “wretched” that instead of scaring the pants off its enemies, America had ended up scaring the pants off itself.

Failed? Or just harder than expected?

Even brilliant pre-war planning would not have made it possible to turn Saddam's Iraq overnight into an Arab Camelot. Anthony Zinni, the former head of America's central command, predicted beforehand that a post-war transition in Iraq would be fraught with difficulty. “If we think there is a fast solution to changing the governance of Iraq, then we don't understand history, the nature of the country, the divisions, or the underneath passions that could rise up.” If Mr Bush thought otherwise, he is guilty as charged of naivety. But do all the difficulties prove that the war has “failed”?

As recently as March, Iraqis themselves were still reasonably optimistic. More than half said in polls that their lives had become better since the invasion, and seven out of ten thought things would be better still a year hence. The mood darkened in April, with the twin uprisings of Sunnis in Fallujah and some of the Shias in cities farther south. Since then, however, the Americans have calmed passions in Fallujah by co-

opting former officers from Saddam's army. A similar deal may yet be possible with Muqtada al-Sadr, the youthful cleric who has put himself at the head of violent Shia opposition.

Not all the present violence is straightforward “resistance” to the Americans or the work of *jihadis*. Part of it is positioning for the power struggle to come when the Americans leave: standing up to America earns credibility for an aspiring politician in the new Iraq. Conceivably, Iraq could degenerate into the long-feared civil war between Sunnis and Shias or Arabs and Kurds. But there has been precious little such fighting so far.

Hearts and minds, far and wide

What if, in two years or so, Iraqis prove to be better off than they were under Saddam Hussein? Could this still have been “the wrong war”? That depends on how history will measure the collateral damage: not only in money and lives but also in the harm done strategically to relations between America and its allies and especially, given al-Qaeda's *jihad*, on relations between the western and the Muslim worlds.

The powerful way for America to restore its reputation in Muslim eyes would be to redeem Mr Bush's promise of an independent Palestine. In 2002, as the Iraq war loomed, he made a downpayment by agreeing to the creation of the “quartet”, a forum in which America would join the European Union, the UN and Russia in promoting a Palestinian peace. This produced the “road map”. After the Iraq war, Mr Bush rolled up his sleeves to deliver. He held a summit with Ariel Sharon and the (then) Palestinian prime minister, Abu Mazen, to urge progress.

A year on, there has been none, and the appearance of failure on both flanks of the Middle East has become self-reinforcing. In just the way that many Americans see no distinction between the terrorism of al-Qaeda and the terrorism of the Palestinian *intifada*, so many Arabs see no distinction between Israel's occupation of the West Bank and Gaza and America's occupation of Iraq. Both conflicts are portrayed on Arabic satellite channels as similar dramas of national or Islamic resistance. In April, Mr Bush made matters worse. When he endorsed Mr Sharon's plans for a unilateral Israeli exit from the Gaza strip, he said that in any broader peace the Palestinian refugees would have to “return” to the new Palestine rather than Israel proper, and that it would be “unrealistic” to expect Israel to return right to its pre-1967 borders.

This statement was construed far and wide as yet another gratuitous tilt in Israel's favour. Retired diplomats in America and Britain wrote enraged letters to Mr Bush and Mr Blair. The British ones urged Mr Blair to dissociate himself from a pro-Israeli stance “at a time when, rightly or wrongly, we are portrayed throughout the Arab and Muslim world as partners in an illegal and brutal occupation in Iraq.”

The world wants the Americans to push Israel along the road map. Why do they seem to demur? The usual answer is to blame the Jewish lobby, especially in an election year. Another explanation is the growing affinity between the superpower and the minnow, one that has grown stronger since, as Mr Bush put it in a recent speech about Israel, Americans too have “experienced the horror of being attacked in our homeland, on our streets, and in places of work.” Beyond the sentiment, however, lies some hard analysis. In Palestine, Mr Bush has worked much less hard than Mr Clinton because he inherited the violent aftermath of Mr Clinton's Camp David failure and did not relish the idea of repeating it.

In Washington in January 2001, Mr Clinton's top Middle East negotiator, Dennis Ross, implored Ahmed Qurei, now Palestine's prime minister, to accept the president's peace plan. If the incoming Bushites saw Mr Clinton being “stiffed” by Mr Arafat, he said, they would want nothing to do with the Palestinian leader and would disengage from the peacemaking.

And so it was. By the time Mr Bush took office, the Israelis and Palestinians were locked in a war of terror and counter-terror. All attempts to arrange a ceasefire have failed. The chief reason for this is a collapse of authority on the Palestinian side. The very first requirement of the road map is for the Palestinian Authority to impose a ceasefire and disarm the terrorists. But this is something Palestinians say they cannot do without provoking a civil war.

No trust, no ceasefire, no meeting of minds on a final agreement. In these circumstances, Mr Bush may well consider that his chances of securing a comprehensive peace in a conflict that confounded his father at the start of the 1990s and tripped up Mr Clinton at the end are negligible. By contrast, precisely because it is unilateral, Mr Sharon's plan for a withdrawal from Gaza might actually come to fruition. That pro-Israeli tilt on refugees and borders has hurt America's standing with the Arabs. America *is* pro-

Israeli. But Mr Bush's encouragement of Mr Sharon was an attempt to help the Gaza withdrawal come about. Mr Clinton had already said that a two-state solution based on the ethnic division of Palestine is not consistent with the return to the Jewish half of millions of Palestinian refugees. The Palestinian leadership has long assumed—even if it has not had the courage to tell its people—that reaching a final deal might require a slight adjustment of the pre-1967 border.

Still the necessary superpower

America could do more in Palestine. After Iraq, it needs to more than ever. Note, though, how many of the people who believe that it is impotent in Iraq also assume that it is all-powerful when it comes to ending a conflict that has perplexed the great powers for a century. It is likelier that America's ability to influence events lies somewhere between these poles: it can shape the history of the Middle East, but it cannot do so just as it pleases.

After the shame of Suez, says Elizabeth Monroe in “Britain's Moment”, Britain's hold on events ceased, “and remained at zero while the free world gasped at so radical a departure from British principle and practice”. And though, later, a modicum of British influence was restored in the Middle East, the nature of that influence was altered “because the power behind it was permanently impaired”. This is the big difference. The world today is full of people willing to pass no less censorious a judgment on America's adventure in Iraq. They will argue about it for decades. But even if the setbacks in Iraq have crimped the style of its new imperialists, America's objective power is not yet waning. For good or ill, it will remain the dominant outsider for years to come.

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About sponsorship

The woes of George Bush

Rumbling from the right

May 27th 2004 | WASHINGTON, DC
From The Economist print edition

AP

George Bush is in slightly better shape than he appears—but far worse than anybody imagined at the start of the year

Get article background

FOR a wartime president, George Bush has been relatively sparing in his use of the bully pulpit. But on May 24th he travelled to the Army War College in Carlisle, Pennsylvania, to give the first of six speeches explaining his administration's policy in Iraq. The speech was a difficult balancing act. He tried to prepare Americans for more dismal news to come—particularly in the period around the transfer of sovereignty on June 30th. But he also tried to persuade them that his administration knows what it is doing.

He sketched out a five-point plan that includes more international involvement—hence a UN resolution that is being prepared with Britain (see article). And he emphasised the long-term aim of transferring authority to the Iraqis. America may need more troops in the short term, he admitted; but the coalition is busy training Iraqi security services. And he added one dramatic gesture—a pledge to demolish the notorious Abu Ghraib prison.

Mr Bush delivered his speech against a background of collapsing support for both his Iraqi policy and his leadership in general. A slew of new polls all point to the same conclusion: that he will have a tough time getting re-elected in November. A CBS News Poll found that only 41% of the population approve of the job he is doing, compared with 52% who disapprove—his lowest rating ever. A year ago, two-thirds approved of his job performance. Meanwhile, 61% disapprove of the way he is handling Iraq, compared with 34% who approve. Majorities disapprove of the way he is handling both foreign policy and the economy. A stunning 65% of people say that the country is on the wrong track.

Particularly worrying to such a partisan president is the fact that Republicans are beginning to go wobbly. Until a few months ago, opposition to the Iraq war was confined to the extremes of the right—paleo-conservatives such as Pat Buchanan (whose *American Conservative* magazine has waged a relentless campaign against the neo-conservatives) and libertarians such as the Cato Institute.

Now some mainstream senators are raising doubts. The usually loyal Pete Domenici told Donald Rumsfeld that he could see no clear vision in the administration's strategy in Iraq. Richard Lugar, who chairs the

Senate Foreign Relations Committee, also demanded a clearer strategy. “If we cannot provide this clarity, we risk the loss of support of the American people, loss of potential contributions from our allies and the disillusionment of Iraqis.” Pat Roberts, the chairman of the Senate Intelligence Committee, went further: America must restrain its “growing Messianic instincts”, and stop engaging in “social engineering” designed to promote democracy around the world.

Mr Bush is sufficiently worried about loss of support within his own party—remember that it was Republican defections, as much as anything else, that cost his father his re-election in 1992—that he took the unusual step of travelling to Capitol Hill on May 20th to rally his allies. He duly got his standing ovations, but the speech produced a worrying bit of symbolism. He likened the handover to taking the training wheels off a bicycle: “It's time for [the Iraqis] to take the bike and go forward.” A few days later Mr Bush fell off his own bike in Texas, badly scraping his face.

Two things explain the nervousness in the party leadership. The first is growing worries about Mr Bush's competence as a leader. A small army of military brass has queued up to question the administration's strategy in Iraq. Joseph Hoar, a former commander of American forces in the Middle East, spoke to the Senate Foreign Relations Committee in almost apocalyptic terms: “We are absolutely on the brink of failure...We are looking into the abyss.” According to the *Washington Post*, Charles Swannack, commander of the 82nd Airborne division, also admitted that even if America was winning tactically, it was losing strategically.

But all this is mild compared with the broadside from Anthony Zinni, a former commander in the Middle East and special envoy to the region for Colin Powell. In a new book—“Battle Ready”, by Tom Clancy (Putnam)—General Zinni says that he has been moved to speak out by a catalogue of errors: “false rationales presented as a justification; a flawed strategy; lack of planning; the unnecessary alienation of our allies; the underestimation of the task; the unnecessary distraction from real threats; and the unbearable strain dumped on our overstretched military.” He charges that “in the lead-up to the Iraq war and its later conduct, I saw, at a minimum, true dereliction, negligence and irresponsibility; at worst, lying, incompetence and corruption.” He is particularly scathing about troop numbers: “everybody in the military knew” that the administration was deploying only half the necessary number. He calls Iraq a “powder keg” that may blow apart into warring regions.

There are also growing doubts, even among Republicans, about the decision-making process that led to war. The question that obsesses Washington, DC, at the moment is how Ahmed Chalabi gained such influence over the administration. The neo-conservatives' favourite Arab, whose Baghdad offices were recently raided by Iraqi police supported by American troops, is widely suspected of feeding the administration false intelligence about weapons of mass destruction, possibly in Iran's interests, and of seducing it into thinking that the Iraqis would welcome the Americans with flowers. This may be bureaucratic revenge: both the CIA and the State Department have always resented Mr Chalabi's influence over the Pentagon and Dick Cheney. But the Chalabi firestorm has reinforced widespread doubts about Mr Bush's leadership style.

In the halcyon days of the Bush administration, his businesslike leadership was contrasted with Bill Clinton's penchant for never-ending seminars. Now many people worry that Mr Bush was the prisoner of an ideological clique that ruthlessly filtered out any information that did not reinforce the president's prejudices. The big danger for Mr Bush, who is basing his re-election campaign on his reputation for decisive leadership, is that clarity will begin to look like monomania, and decisiveness like bull-headedness.

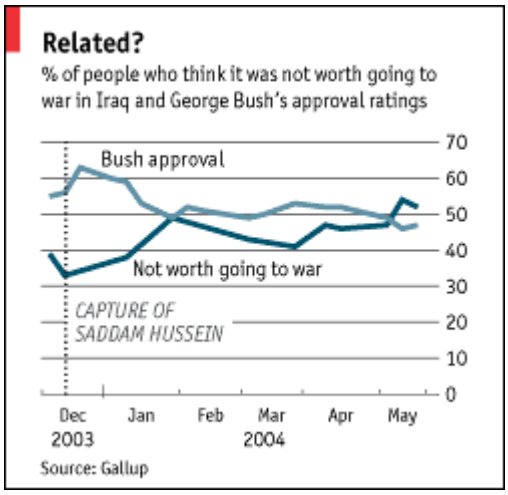
Those damn polls

The second reason for Republican restiveness is the fear that Mr Bush is becoming a liability for the rest of the Republican ticket. A year ago, Republicans were talking about the possibility of a clean sweep—not only keeping the presidency but also increasing their majorities in both the House and the Senate. Things look very different now. The Democrats stand a good chance of picking up their second House seat in a row in next week's special election in South Dakota (their last pick-up was also in a Republican state, Kentucky). Jennifer Duffy, an analyst with the *Cook Political Report*, has downgraded her estimate of the chances of the Republicans keeping the Senate from 90% in January to about 60-65% today.

Recent polls by AP/Ipsos (May 3rd-5th) and CNN/*Time* (May 12th-13th) show Democrats leading Republicans by nine and 13 points respectively on generic ballot tests. The right-track/wrong-track numbers are particularly worrying for the Republicans, given their control of all three branches of

government. The last time so many people thought the country was on the wrong track was in November 1994, when Newt Gingrich's Republicans seized control of both houses of Congress for the first time in decades.

All this is emboldening the Democrats as well as depressing Republicans. Nancy Pelosi, the Democratic minority leader, has taken the opportunity to question Mr Bush's competence on both Iraq and the economy. Hillary Clinton, who has been cultivating a moderate image, has given warning that re-electing Mr Bush will mean a loss of freedoms and "create an America we won't recognise". John Kerry is trying hard to court not just swing voters but disillusioned Republicans. He has toned down some of his more tub-thumping rhetoric, started making centrist—or even conservative—noises about everything from business (good) to the budget deficit (bad), and launched advertising blitzes in Colorado and Louisiana, both states Mr Bush would expect to win. Meanwhile, to torment the president further, Mr Kerry's allies are forever floating trial balloons about recruiting John McCain to run the Pentagon or even to run on the same "dream ticket".



Does all this mean Mr Bush's goose is cooked? That would be stretching the evidence. So far, Mr Kerry has singularly failed to translate anxieties about Mr Bush into positive feelings about his own candidacy. The two men remain almost neck-and-neck in most polls, despite that precipitous drop in Mr Bush's job-approval ratings. This balance may well continue, as improved news about the economy begins to counteract bad news about Iraq.

The polls from the front line are still sending mixed signals. An on-line poll by Zogby International showed Mr Kerry ahead in 12 of 16 battleground states; but a single poll of voters in battleground states for Fox News put Mr Bush ahead by 43% to 37%. The Fox poll also suggests that the "intensity" of Mr Bush's vote is significantly above Mr Kerry's, a fact that somewhat belies Republican nervousness on Capitol Hill. Fully 78% of Bush voters say they "strongly" support him, up five percentage points since early April, and 21% say they "somewhat" support him. Only 59% of Kerry's supporters "strongly" support him; 40% "somewhat" support him.

Mr Kerry has a difficult political dance to perform in the coming months. If he moves too far to the right, he could lose votes to Ralph Nader, who is running on an anti-war, bring-back-the-troops ticket. (Howard Dean is playing a vital role in Mr Kerry's campaign, shoring up his left flank.) If Mr Kerry moves too far to the left, he will alienate swing voters and moderate Republicans, who are already nervous about his liberal voting record and chumminess with Ted Kennedy. All this will make it more difficult to shed his image as a flip-flopping waffler.

Mr Bush also has some good opportunities to use the powers of incumbency to reinforce the "stature gap" between himself and Mr Kerry. A series of international meetings, such as those centred on the Normandy landings, will give Mr Bush a chance to rub shoulders with world leaders, lay out his vision of fighting Islamic terrorism with democratic reform, and blunt his image as an isolationist. There is that new UN resolution, and the possibility that the G8 meeting in Georgia will approve Mr Bush's proposal for a "Greater Middle East Initiative" to support democratic reform in the Muslim world.

The humdrum truth is that the race is still wide open. All that has happened is that Mr Bush has lost his clear lead. His speech on Monday merely reinforced existing partisan divisions, with Republicans applauding him and Democrats accusing him of producing an all-too-familiar wish-list, devoid of specifics and silent on all the tricky issues. It is unlikely that his next five speeches will redefine the debate.

Mr Bush can take comfort from the improving economic news, and from the fact that his core support is holding up remarkably well, given two months of non-stop bad news from Iraq; Mr Kerry can console himself that Iraq will go on pushing down Mr Bush's poll numbers, and that undecided voters usually favour the challenger.

The problem for Mr Bush is that his margin for error is limited. Take those upcoming international meetings: rather than showing his statesman qualities, they could easily turn into a disaster, with foreign leaders picking holes in his plans and foreign protesters reminding America how radioactive their president is.

Asked what most tested him as prime minister, Harold Macmillan ruefully replied “Events, dear boy, events.” More than in any other presidential election in recent history, events will determine the result this November.

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The electoral week

On the trail

May 27th 2004
From The Economist print edition

The big story

“It's been raining a lot and the topsoil is loose. You know this president. He likes to go all-out. Suffice it to say he wasn't whistling show tunes. He was fine, the Secret Service offered to drive him back to the house. He declined and finished his ride.”

A White House spokesman explains how the president fell off his bike. Associated Press, May 22nd

Homoerotic moment

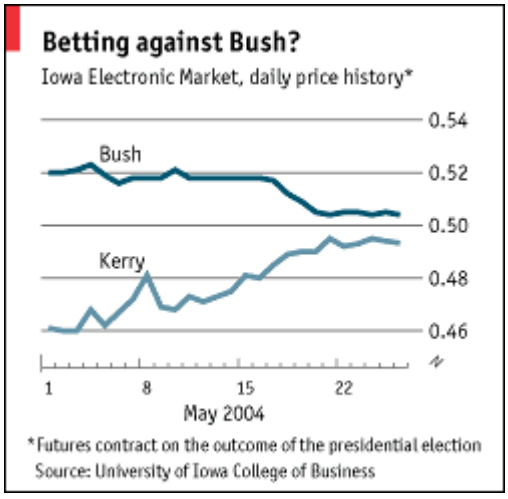
“He'll give me this look. It's like, it's almost like, ‘Wouldn't it be nice if we were windsurfing right now?'”

Marvin Nicholson, John Kerry's valet, on his relationship with the candidate. Los Angeles Times, May 25th

A threat or a promise (1)

“The people who usually ask the candidates questions are screened, and I'm going to use real people off the streets to get their questions out there. I'm going to make Kerry and Bush squirm.”

Sean “P. Diddy” Combs on his new political show on MTV. New York Post, May 23rd



A gentle soul

“I've sort of thought Health and Human Services might be a nice spot for me, or Interior.”

John McCain speculates on his position in a Kerry cabinet. Capital Report, CNBC, May 20th

Strippers for Kerry

“It's not to say our industry loves John Kerry or anything like that. But George Bush, if he's re-elected, it could be very damaging to our industry.”

Dave Manack, publisher of Exotic Dancer magazine. Associated Press, May 20th

Straight talk

“The show is stupid. I have always said that. It has no value. But that's not the reason I'm a delegate... I'm a delegate because I spend an awful lot of time in Ohio helping to rebuild the party.”

Jerry Springer, a mayor-come-daytime-TV-host, who will be an Ohio delegate to the Democratic convention. Scarborough Country, MSNBC, May 20th

Clever man

“I figured out Karl Rove's political strategy—make gas so expensive, no Democrats can afford to go to the polls.”

John Kerry reveals how Mr Bush's strategist pushed up the price of petrol. US News and World Report, May 31st

Iconography

“We are flattered that the president decided to use our corporate icon. However, it is causing confusion in the market place. We are looking into the matter.”

A spokesman for the W hotel chain, which objects to the Bush-Cheney campaign using its logo. New York Daily News, May 25th

A threat or a promise (2)

“If he wants to come hunting with me one day, as long as he agreed not to turn the gun on me, I'd be happy to.”

John Kerry on Wayne LaPierre of the National Rifle Association. Associated Press, May 19th

Breach of contract

“His [promise] was that he would never ask me to give a political speech, and I said I would go for a run with him every day.”

Laura Bush, campaigning for her husband, explains how her pre-nuptial agreement with the president didn't really work. Boston Globe, May 21st

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About sponsorship

The Senate race in South Dakota

Enter Bill Frist

May 27th 2004 | RAPID CITY, SOUTH DAKOTA
From The Economist print edition

The battle to unseat Tom Daschle begins in earnest

THERE were plenty of reasons why a decent conservative like Bill Frist, the Republican majority leader in the Senate, would want to visit the annual Pennington County Republicans' dinner in South Dakota. Outside, pick-up trucks filled the parking lot. Inside, banners declaring “Let Freedom Ring” hung above the stage, with giant images of a Bible verse, George Bush at Mount Rushmore (in profile below Thomas Jefferson's nose), and Saddam Hussein's statue toppling in Baghdad. The Republican Women sold pie. The Young Republicans, College Republicans and Teenage Republicans all had booths. A phone call came in from Iraq, where a soldier from Rapid City told the crowd to ignore grim media reports, citing the arrival of trailer showers and mobile phones for the troops.

Relatively empty South Dakota (population 760,000) rarely gets national attention. But this year the state has a special election for its only congressional seat (more on that in a moment); and, far more important, the Democrats' leader in the Senate, Tom Daschle, is trying to hang on to his own seat. Republicans, who hold most of the offices in the state of prairies, Badlands and Black Hills, smell blood.

Mr Frist turned up at the dinner to support Mr Daschle's opponent, a telegenic former congressman called John Thune. “It's now time to transplant a liberal bleeding-heart out of the Senate,” the heart-surgeon-turned-majority-leader told the Republican faithful.

By going to South Dakota, Mr Frist broke with the etiquette that forbids a party leader in the Senate from campaigning against his opposite number. It is a measure both of Mr Frist's frustration with Mr Daschle and of his keenness to grab the seat for his party that he risked such a visit.

Two polls released in the past week showed Mr Daschle leading Mr Thune, but by very different margins. A Zogby poll put Mr Daschle ahead by 13 points, but a poll by the Sioux Falls *Argus Leader,* the state's biggest paper, showed him leading by only two points.

It is notable that Mr Thune, who narrowly lost a Senate race two years ago against Tim Johnson, the other Democratic senator, is within striking distance this early, even though he has yet to run television ads across the state. In the last reporting period, April 1st-May 12th, he raised twice as much Mr Daschle, who has been spending money on ads touting his support for ethanol, an alternative fuel that would benefit farmers in the state.

William Richardson, a political scientist at the University of South Dakota, reckons the campaign will take off after the special congressional election on June 1st. That election will fill a seat vacated by Bill Janklow, a Republican who went to jail for killing a motorcyclist while speeding. The Republican candidate, Larry Diedrich, is being challenged by Stephanie Herseth, scion of a well-known political family, who was 11 points ahead this week.

The Republicans will happily give up the House seat if they can remove Mr Daschle. There are plenty of South Dakotans who appreciate the bacon Mr Daschle has brought home, from new roads to generous farm subsidies. Businessmen know the cost of replacing a senior senator with a freshman. People fear the huge Ellsworth air force base will be shut down if Mr Daschle is not around to shield it.

Mr Frist visited Ellsworth last weekend, and cleverly floated ideas for expansion. The Republicans are also playing on complaints about Mr Daschle blocking Mr Bush's judicial nominees—and also leading his party leftwards on social causes. “Mr Daschle can no longer do justice to South Dakota and the Democratic Party at the same time,” says Qusi Al-Haj, the Jordanian-American chairman of the Pennington County Republicans.

Plenty of people at the dinner seemed to agree. Alvin Zietlow, a retired beekeeper and rancher, declared that Mr Daschle is a “damn good man and means well, but he's a Democrat and will vote more liberal than I like on gays and all that.” He admitted, though, that Mr Daschle has been good to ranchers and farmers. His wife tried to get in a few words on women's issues, but he cut her off.

A few tables away Jack First, whose leather jacket declared him a lifetime member of the National Rifle Association, complained that Mr Daschle is “a Washington man. He's a tax-and-spend man, for abortion, wants more money for education, and that's silly.” (South Dakota has no income taxes.) A gun-shop owner, Mr First also moaned that Mr Daschle always votes against guns.

There were few Native Americans in evidence at the Republican dinner, but they could prove critical this year. Voters from the reservations, who tend to be Democrats, played an important role in Mr Thune's narrow loss in the Senate race two years ago. Mr Daschle pays regular visits to the reservations, though the Republicans are also trying to register Native Americans for their side, too.

Another variable in the Senate race, inevitably, is George Bush's fortunes and the war in Iraq. No Democratic presidential candidate has won South Dakota since 1964, and John Kerry isn't trying too hard in a state with only three electoral votes. Mr Thune has played up his ties to Mr Bush, entertaining Laura Bush and Lynne Cheney as well as Mr Frist.

Yet the Iraq war is keenly felt. “Bush attacking Iraq didn't sit well with me,” says Mr Zietlow, the rancher. His solution now? “You can either split the country in three, or shoot everybody.” He pauses, then adds: “I'm a capitalist—I own a lot of oil stocks—and I'm torn between what's right and what makes money.” Like the president, Mr Daschle seems to be in for a long hard summer.

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The charm of poker

It's like bridge, Ida, but with guns

May 27th 2004 | NEW YORK
From The Economist print edition

The sport of gangsters has become worryingly respectable

EVER since Wild Bill Hickok was shot in the back by “Crooked Nose” McCall in 1876 while holding aces over eights in the Dakota Territory, the game of poker has had a slightly nefarious reputation. But time, television and around 50m players a year nationwide have transformed the game from a shady pastime to legitimate American sport, complete with professional players and television contracts.

As *The Economist* went to press the 35th World Series of Poker, the game's crowning event, was drawing to an end, having attracted more than 2,500 participants (up from last year's 800), each submitting a $10,000 entry fee. So popular has the game become that Harrah's, a casino company, recently purchased the WSOP for $30m. The sport's new respectability was illustrated by the 2003 victory of the aptly named Chris Moneymaker, an accountant from Tennessee. Mr Moneymaker's unlikely win (he qualified via a $40 stake in an online poker tournament) has helped sell the game as a spectator sport.

Three separate cable television series now follow experienced players or celebrities, such as Ben Affleck and Martin Sheen, matching nerves over the no-limit “Texas Hold'em” version of the game (in which five cards are dealt face-up while each player receives two face-down “hole” cards and then has to fashion the best five-card hand). Texas Hold'em draws an average of 2m viewers a week to its various broadcasts. Crucial to this success has been the use of tiny “lipstick” cameras, which enable those watching at home to see the two hidden hole cards, providing a level of insider knowledge forbidden when the game made its first inroads into popular culture.

Many aficionados consider poker the quintessential American game. It expanded westwards with the country after being introduced around the time of the war of 1812. The game's current popularity stems largely from two events. The first occurred in 1970, when Benny Binion, a colourful cove who was alleged once to have been a bootlegger in Dallas, started the World Series of Poker at his Horseshoe casino in Las Vegas, where it is still played today. At the time, Texas Hold'em was a somewhat obscure game played by cowboys in the Lone Star State; but these happened to be the people with whom Binion cavorted until his death in 1989.

The second push came in the mid-1980s, when California legalised high-stakes poker. This lent a gentler patina to the game, according to James McManus, who teaches a course on the literature and science of poker at the Art Institute of Chicago (nice job, that). Rough-hewn cowboys gave way to women and foreigners, a more middle-class clientele that, in turn, attracted more players than ever before.

The public is not the only group with a desire to wager in increasing numbers. States grappling with looming budget deficits have increasingly placed their bets on expanding the gambling industry. This is hardly a new trick: after the revolutionary war, lotteries were used to pay for schools. Later, the Depression sparked the rise of parimutuel horse racing, which was followed by the rise of lotteries again in the 1970s in states battered by inflation. Earlier this year New York state opened a string of “racinos”, allowing slot-machine-style gambling at racetracks. In 2003, 30 states considered new or expanded gaming facilities at the ballot box or in city or state legislatures. Not all of these had a poker dimension; but a little government blessing never does an industry any harm.

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Swing states

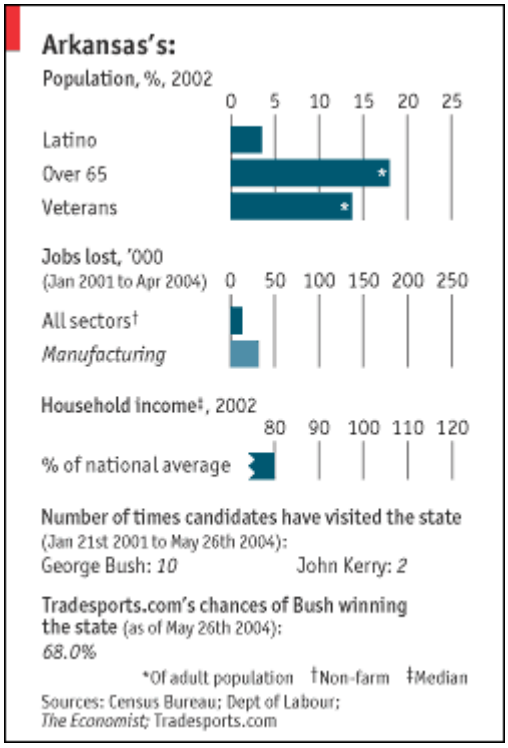
Clinton country

May 27th 2004
From The Economist print edition

George Bush was lucky to win Arkansas last time. Can he struggle home this year?

DICK CHENEY was in Arkansas this week, amid a perfect patriotic setting—red, white and blue balloons and nine American flags. He spent 20 minutes with Republican fund-raisers bashing John Kerry and touting the sort of American values—patriotism, family and security—that resonate almost as strongly here as fried fish and Friday night football. George Bush has already been to Arkansas three times this year. Lynne Cheney and Laura Bush have also made several visits on the White House's behalf.

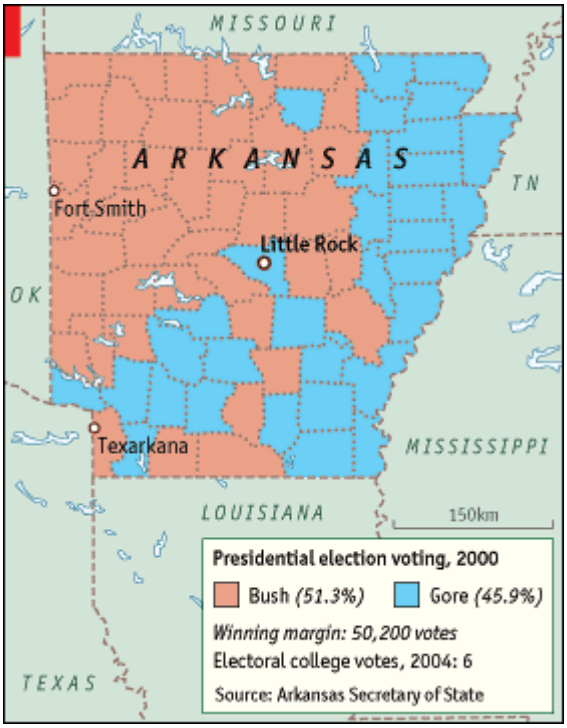
Why pay so much attention to a small state that Mr Bush won fairly comfortably last time by 51-46%? Because, as both sides admit, Al Gore should have won it last time. Because this is a state with a bumptious citizenry that loves a rowdy political year. And because this is Clinton country—with all the complications that brings.



Arkansas is the most Democratic state in the South. Mr Bush can count on the Republican governor, Mike Huckabee, but Democrats hold most of the congressional offices, statewide offices and legislative seats. Mr Bush has a stronghold in conservative northern Arkansas (a Democratic congressman hasn't won the seat there since 1966), but the rest of the state could tilt in favour of Mr Kerry.

For the locals, the presidential race is the only one on the ballot with fire. Senator Blanche Lincoln, a Democrat, is considered a shoo-in even by Republicans. The congressional races look likely to be a repeat of 2002: three Democrats and one Republican. By contrast, Messrs Bush and Kerry are neck-and-neck in the polls.

Neither party is in any great shape. The Republicans have been hurt (both morally and financially) by a corruption scandal last year. The lieutenant-governor, Win Rockefeller, is trying to rebuild the party, but many of the footsoldiers are still furious with the higher-ups.



The Democrats have now, at last, built up a voter database. But they are still split between those who went up to Washington to work for Bill Clinton, and those who stayed behind. There is also the problem of Wesley Clark, one of Mr Kerry's erstwhile opponents for the Democratic nomination and now one of his potential running-mates. The general, who is based in Little Rock, has quite a following—and his people insist that he would get an important position in a Kerry White House. But other local Democrats think Mr Clark should have worked his way up the Democratic totem pole, as others have had to.

With such division in both parties, the campaigns may have to build their own organisation. Here Mr Bush has a clear advantage: he already has a team of staffers on the ground and a campaign headquarters. By contrast, Mr Kerry has yet to choose a state co-ordinator—and that choice reintroduces the tricky subject of Bill Clinton.

In 2000, Mr Gore came to the state and conspicuously failed to mention his boss. Mr Kerry, never a particular buddy of Mr Clinton's in Washington, is making friendlier noises: he touted the former president as one of the best Democratic presidents in history at a local fund-raiser, and he made a point of visiting Doe's Steak House, a popular dive for the Clintonistas in 1992.

As for the “Friends of Bill” who have returned to Arkansas, they seem unsure what to do. For some, the choice is tactical: should they work for Mr Kerry at a local level or pitch in on national issues? For others, there is a more fundamental question of how hard they should work for Mr Kerry at all. If he wins the election, then Hillary Clinton cannot inherit the mantle of Democratic presidential candidate (and, quite possibly, the presidency) in 2008. But in the best Clintonista tradition, they want to be involved. As one of them explains, whoever Mr Kerry picks to lead his Arkansas operation should have clear knowledge of “how this hierarchy works and be willing to honour it”.

It is not just a matter of money and connections. Mr Clinton's blessing will be crucial if Mr Kerry is to lure out his core supporters—blacks, who make up 12.5% of the electorate. Mr Huckabee has actually been rather successful at wooing the black vote; but Mr Bush is deeply unpopular with blacks, not least because of the Iraq war. Arkansas has a lot of National Guard troops on duty there—and a disproportionate share of its contingent is drawn from minorities. Local blacks all seem to know somebody who has been killed or wounded in Iraq.

Mr Bush's core supporters—white conservatives—have also been shaken by the war; but they look more solid. Arkansas's Bible belt is firmly behind the president (this is not a state where Mr Kerry would be advised to talk too much about gay marriage). And the president also seems to have sewn up the Wal-Mart vote. Mr Cheney has visited the state's (and the nation's) biggest employer at its headquarters in Bentonville. Meanwhile, Mr Kerry has lambasted the discount chain over the weak health insurance it offers workers at its non-unionised stores.

For many southern whites, culture will be key. If Mr Gore had tried harder, he could have won the state.

After all, he could at least claim to be a southerner. Mr Kerry has some things going for him (notably his military record) but he is a Yankee. Why should Arkansans trust a haughty Bostonian learning his way around the Razorback landscape over a Texan who speaks their language? The state hasn't voted for a northerner since Kennedy. That must favour Mr Bush.

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Lexington

Bill Richardson's story

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His experience in New Mexico could be useful to John Kerry

A PUEBLO Indian storyteller doll sits in the hallway of the governor's residence in Santa Fe. A pottery figure about a foot high, she sits—head back, eyes shut, mouth open—telling stories to, and dominating, a dozen inch-high children who are stuck all over her body. It seems a suitable image for the inhabitant of the mansion. Bill Richardson, the governor, towers over New Mexican politics, beguiling its voters—and many Democrats looking for a running-mate for John Kerry.

Mr Richardson denies any interest in the vice-presidency: he will serve out his term as governor till January 2007 and then retire to smoke cigars in Santa Fe, he claims for the umpteenth time. But assuming there are no personal obstacles in the way, he seems to fit the job as well as anyone. He has executive experience (energy secretary under Bill Clinton), legislative experience (congressman, 1983-97) and an international background (ambassador to the UN, 1997-98). He is a Latino—his mother is Mexican—so he could not only shore up that core Democratic constituency but also influence Nevada and Arizona as well as New Mexico. This year, Mr Richardson will be in the national spotlight as chairman of the Democratic convention in Boston.

Those who yearn for him as a running-mate base their affections largely on his national qualifications: on the idea that he is the sort of substantial figure you need to send into a debate with Dick Cheney. Yet in some ways, the most interesting part of Mr Richardson's career is local: his record as a reforming governor.

New Mexico is a poor place, with one of the highest proportions of people living on food stamps. It is also odd. Because more than 40% of its population is Hispanic, it is usually grouped with immigrant states, notably California. In fact, few of its Latinos are immigrants: they include many families left over from the Spanish empire who have been in New Mexico since before the first English settlers arrived in Virginia. Its political tradition also long had a Latin American feel, based around a *padrón* system of clients and bosses. The bosses ran grocery stores, gave you credit, helped you if you needed a job. And all you had to do was vote for the Democrats. It used to be said that the votes in Rio Arriba County came in last because the local boss had to wait to find out how many votes were needed.

The *padrón* system is a shadow of its former self, but New Mexican politics is still about jobs, contracts and personal loyalty, not ideology. And Mr Richardson personifies this. Tall and jovial, with a bone-

crunching handshake, he gives you a big hug and smile, has perfect recall of where you last met and asks after all your children. (He is in the “Guinness Book of Records” for shaking the most hands in one day: 13,392 at the New Mexico State Fair in 2002, beating Teddy Roosevelt's 94-year record.)

Mr Richardson may look like a traditional boss, but he has been a surprisingly revolutionary one. New Mexico used to have a weak state government. The governor's job was to make sure each barony got something (which helps to explain why a state of just 2m people has six graduate universities and 22 community colleges), and also to co-ordinate the state's search for federal dollars: the defence industry, thanks to four huge military bases, has been its biggest employer. The state's capital budget has traditionally been parcelled up in an informal deal where a third went on pet projects of legislators in the House, a third was more or less reserved for senators and a third for the governor.

Mr Richardson ran as a moderniser in 2002 and, having won by a thumping 16-point margin, he has duly started changing the system. He now claims the right to allocate about half of the budget, and is spending much of that on statewide infrastructure projects. He has created a new statewide education chief, responsible to himself, over the heads of local school boards. Meanwhile, to make the state more business-friendly, he has almost halved the state capital-gains and income taxes, and abolished the sales tax on food.

This has made Mr Richardson enemies. In the dusty villages of New Mexican politics, feathers have been ruffled and egos bruised. But for now he has momentum on his side: the governor has a job-approval rating of over 60%, and Albuquerque has started appearing on lists of “good cities to do business in”. New Mexicans recognise that their state needs shaking up, and that it needs to escape from competing with Alabama, Mississippi and Arkansas for having the worst welfare system and schools.

What has John Kerry run?

You could argue that Mr Richardson might achieve more in New Mexico than he ever could in Washington, DC. Mr Kerry's people finally seem to be taking his repeated denials of interest in the job seriously. That may be because they have discovered some skeleton in his closet. But it is a pity, because Mr Richardson would be extremely useful to Mr Kerry.

Mr Richardson has shown that he can govern: that he can bully a legislature, set an agenda and administrate. This sets him apart from the various mooted running-mates from Congress, such as Dick Gephardt and John Edwards—though not, admittedly, from the current flavour-of-the-month, Tom Vilsack, the governor of Iowa, who in turn lacks Mr Richardson's experience on the national stage.

The need for Mr Kerry to come up with a weighty vice-president seems particularly acute for two reasons. First, the vice-president's office has grown more powerful over the past decade, with first Al Gore and then Dick Cheney running great chunks of the administration. And, second, Mr Kerry is relatively short of executive experience himself, having merely served as lieutenant-governor in Massachusetts. Four of the past five presidents have governed states—and the exception, George Bush senior, had been vice-president and head of the CIA. Mr Richardson should not be passed over in a hurry.

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Haiti

Misery upon misery

May 27th 2004 | GONAïVES AND PORT-AU-PRINCE
From The Economist print edition

Reuters

As United Nations peacekeepers prepare to deploy in Haiti, this week's floods and mudslides add one more to a long list of problems

Get article background

“JESUS will come back soon.” Or so promises a graffito on an abandoned market stall in the centre of Port-au-Prince. In Haiti, miracles are much needed but in short supply. As if Haitians—the poorest people in the Americas—did not have enough to deal with, torrential rains hit their country and the neighbouring Dominican Republic this week, unleashing floods and devastating mudslides. Some 2,000 people were reported killed in the border region between the two countries, half of them in one Haitian town.

For Haiti, the floods add to the pains of a country exhausted by political turmoil and economic disintegration. It is still struggling to recover a sense of normality after the rebellion which ousted President Jean-Bertrand Aristide in late February. For the second time in a decade, foreign troops have stepped in. But stability and economic recovery remain distant goals.

On June 1st, United Nations peacekeepers are due to take over from a 3,600-strong Multinational Interim Force (MIF), led by American and French troops, that arrived as Mr Aristide departed. On April 30th, the Security Council authorised the deployment of 6,700 troops and 1,622 policemen for six months, under Brazilian command. But only some 1,800 blue helmets will be on the ground by early June. They include the Canadian and Chilean contingents of the MIF. More than 1,000 police have been promised so far, but few of them speak French. It is hoped that the UN force will be operational by the end of June, when the last of the French and Americans go.

These arrangements look rickety. But there are some encouraging signs. A transitional government of technocrats headed by Gérard Latortue, a former UN official, is in place, pending elections some time next year. The insurgents who forced Mr Aristide out—mainly ex-soldiers and a turncoat militia of former loyalists—appear to be in check. Foreign troops have contributed to a sense of order. Children in school uniform stroll the streets.

Guns, but no army

This relative improvement should not be confused with genuine stability. Fighting may have stopped, but insecurity is rampant. Behind the metal bars that attempt to protect his cash register, a shopkeeper in Port-au-Prince laments that crime and rocketing prices have cost him about 75% of his business. His shop was recently attacked by ten armed robbers. Several nearby stores have closed. Outside, street traders complain they still face extortion from pro-Aristide militias. Reports of kidnaps, shootings and robberies abound.

The UN force must try to impose order on a country of 8m people with no army (Mr Aristide disbanded it in 1995) and a small and ill-armed police force. During the chaos that preceded Mr Aristide's ousting, weapons were stolen or seized from the police and distributed to the regime's militias, known as *chimères*. They were allowed a free hand to loot and terrorise. Prisons were emptied. So common are guns that a poster in a supermarket advises people to avoid pointing them at foreign peacekeepers: they may take it as a threat.

A first task for Mr Latortue's government is to rebuild the shattered police. From 6,000 officers before the February uprising, the force has shrunk to 2,500, most of whom are in the capital. According to Jean-Yonel Trécile, a police spokesman, the force lost half its vehicles in the rebellion; many police stations lack weapons.

In all, some 15,000 or so police are needed. There is no shortage of candidates: recruitment started in March but had to be suspended when over 35,000 applicants desperate for a job showed up. Current plans call for training 1,200 recruits over the next two years; in addition, some ex-soldiers, dismissed without income or pension when the army was abolished, will also join.

This may help to appease some of the rebels. They have been excluded from the new government, but have hung on to many of their weapons. A ceremony on May 18th in which rebels were supposed to hand over their guns in Gonaïves, the town where the rebellion started, turned into a protest against “French occupation”.

Some rebel leaders, such as Guy Philippe, a former police chief, and Buteur Metayer, a gang leader, seem willing, for now, to reinvent themselves as politicians. They have created a new party, the National Reconstruction Front. Others are bitter. Wilford Ferdinand (who calls himself Ti Will), a former policeman turned rebel, still lives in a small house in the slum of Raboteau in Gonaïves. Clutching a gun under his arm as two naked toddlers nap on the bare concrete floor, he says he wants training and a job. Outside, a group of angry youths parade around the block, shouting anti-government slogans. They accuse Mr Latortue, who is from Gonaïves, of handing out jobs to his relatives and friends.

In Gonaïves, 150 French troops are supposed to help anxious policemen secure a vast tract of central Haiti. According to Captain Georges-Henri Tourmente, a French officer, the rebels are no longer an organised force there. The same cannot be said elsewhere. Until recently, the small Chilean force in the central town of Hinche, a rebel stronghold, was flown back to the capital each night.

If the new government has to find a way to integrate the former rebels, the same goes for supporters of Mr Aristide. Though his rule degenerated into thuggishness and corruption, the former president is still seen by many among Haiti's poor majority as the only politician who has their interests at heart.

With Mr Aristide in Jamaica, and perhaps heading for exile in South Africa, his Lavalas Family party is in disarray. Several of its top leaders have left or are hiding. Others have been arrested or are being investigated for drug trafficking or human-rights abuses. Lavalas protests that it is suffering a witch hunt. Though it was involved in the negotiations over the interim government, it has so far declined to take part in the electoral commission supposed to prepare next year's elections.

No comedians

Lavalas moderates, such as Leslie Voltaire, a former minister, insist that the party has a future without Mr Aristide. He mixes populist rhetoric with talk of national reconciliation and compromise. But Mr

Aristide, who claims he was kidnapped by the Americans (who deny this), is still influential in the slums. On May 18th, thousands of demonstrators in Port-au-Prince demanded his return. In Cité Soleil, one of the capital's poorest districts and once an Aristide stronghold, a new generation of gangsters, some as young as 12, are taking over from those forced into hiding by the American troops.

For most Haitians, life is all about survival. Two-thirds of them lack a proper job. The price of rice has almost doubled since January. Mountains of rubbish have piled up in the streets. In Port-au-Prince, there is no water and almost no electricity for those who cannot afford generators. Good roads exist only in the memory of those old enough to remember better days.

Estimates of the cost of the looting and destruction of property in February range from $100m to $300m. Public services collapsed. That was a body blow to an economy already wounded by years of mismanagement, general instability, a UN embargo in the early 1990s and a suspension of foreign aid after 2000. The only growth business has been the trafficking of Colombian cocaine.

The interim government is pleading for outside help. Mr Latortue recently went on a foreign tour to drum up pledges for a donor conference to be held next month in Ottawa. The government lacks cash to pay salaries for the next few months, let alone to start investing in roads, sanitation or police stations. “To say that the situation is difficult is a polite understatement,” says Henri Bazin, the finance minister.

In March, the UN launched a $35m emergency appeal, but less than $9m has been received so far. The United States recently promised $160m for this year. Undisbursed funds from the Inter-American Development Bank for Haiti could be quickly unblocked.

A readier source of cash is the $1 billion that the Haitians living abroad send back home each year. That amounts to three times the country's exports or the government's budget. Most of this money is spent on food and clothes. It helps to pay for survival, not reconstruction.

Haitians are growing angry over rising food prices and mounting rubbish. Many criticise the interim government for being too slow. But, for now, the loose coalition of opposition politicians and civic groups which helped to oust Mr Aristide vows to continue working with Mr Latortue.

Haiti's failures are rooted in its history, but also in its social and racial divisions. Mr Aristide did not offer a solution, but he was far from the country's only problem. “Union is strength”, reads Haiti's flag. Unfortunately, Haitians have rarely borne this in mind for very long. Outsiders can do much to keep Haiti's faint opportunity for a new start alive. But it is up to Haitians to seize it.

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Canada's election

Martin's gamble

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From The Economist print edition

Reuters

Damned if he delays—so he didn't

The whys and wherefores of an uncertain campaign

Get article background

PAUL MARTIN, Canada's prime minister since December, is a sober, solid type. Yet in calling a federal election for June 28th, he is acting like a “river-boat gambler”, according to a veteran television reporter. The latest poll places Mr Martin's Liberals at 35%, the opposition Conservatives on 26%, and the leftish New Democrats on 18%; in Quebec, the separatist Bloc Québécois is poised to win seats. Unless the polls turn, Mr Martin risks returning to Parliament as the head of a minority government. Up till now, he has enjoyed an overall majority of 39 seats.

So why has Mr Martin thrown his habitual caution to the summer breezes? Almost to the last moment before he called the election on May 23rd, senior Liberals were advising him to wait until at least September. That he did not has much to do with the unexpected reverses he has suffered since succeeding Jean Chrétien.

Many Canadians were riled by a scandal over the siphoning off of large sums of money from Mr Chrétien's scheme to promote federalism by sponsoring sports and arts events in Quebec. The fact that Mr Martin had turfed out all the Chrétien loyalists from the cabinet added to the bad blood in the ruling party.

To those who counselled delay, Mr Martin's answer seems to have been that things can always get worse. A further blow made the point. When the new Liberal government in Ontario last week broke an election promise and increased taxes to pay for health care and education, support for the federal Liberals in Canada's most populous province dipped by 5%. In addition, because he had intended an earlier election, Mr Martin's six months in power have been surprisingly directionless, producing no overarching new policy agenda, let alone early legislation.

The upshot is a campaign full of uncertainties. The three main parties all have newish leaders. Mr Martin's main challenger, Stephen Harper, adroitly stage-managed the recent merger of the two conservative parties, his own western-based Canadian Alliance and the Progressive Conservatives whose support had been reduced to the east. Partly in response to this united opposition on the right, and partly because of his own convictions and background in business, Mr Martin has nudged the Liberals to the centre-right.

The resulting discontent on the Liberal left has allowed Jack Layton, the New Democrats' lively new leader, to dream of more than doubling his party's numbers in the House of Commons from its current 14. In Quebec, the Bloc Québécois has benefited from the unpopularity of Jean Charest's provincial Liberal government, which is trying to push through painful but necessary reforms.

The Liberals have staked victory on a promise to spend more on health care. Mr Martin is also seeking to portray Mr Harper as an extreme social conservative. In this, he has gained unexpected support from Joe Clark, a thoughtful former Conservative prime minister who has all but endorsed Mr Martin. An opponent of the opposition merger, he accuses Mr Harper of hiding an extremist agenda behind the “masquerade” of a moderate party. That argument succeeded against two previous Alliance leaders. This time it may backfire.

In the end, the election may turn on the performance of the three leaders. Mr Martin is accomplished and affable. Mr Layton campaigns hard on the problems of cities and the environment, but appears glib. The cerebral Mr Harper seems awkwardly stiff at rallies. For the first time since the Liberals took office in 1993, Canada is going into an election whose result is not obvious in advance.

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Central American trade

Five get anxious

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The leaders of Central America argue that the United States needs mutual free trade as urgently as they do

AP

Working in the shadow of the coming Chinese cross-stitch

THIS weekend the leaders of five Central American countries will travel to Washington, DC, where they are due to join George Bush in signing the Central American Free-Trade Agreement (CAFTA). The Dominican Republic is due to add its signature soon. But signing is one matter and ratification another. Nobody expects CAFTA to get through the American Congress until after the election—if it does at all. American sugar and textile producers are lobbying hard against it. Many Democrats think the agreement does too little to strengthen labour standards.

This may be of little import to the average American. The Central American five (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) amount to a market of only 33m, many of them too poor to be ranked as consumers. But for Central America, the stakes are much higher. CAFTA is essential for the five “to survive the next few years”, according to Roberto Artavia, the head of INCAE, Central America's leading business school. Like many, he calls these “the China years”. In Central America, that phrase carries a particular resonance. It competes head on with China in textiles and clothing.

CAFTA is no panacea: thanks to the howls of rivals in Florida, trade in sugar, in which the five are competitive, will not be free and the agreement makes little allowance for the disparities of power among the signatories. But Central America's leaders see it as vital if they are to lower costs, improve competitiveness, attract investment and, in the short term at least, prevent textile jobs from moving to China.

Clothes-making accounts for most of Honduras's manufacturing, for example. Hitherto, to avoid import duties of 18-28%, manufacturers have had to buy their raw material from the United States. Under CAFTA, they can buy it anywhere, and their exports will be duty free. This change would offset China's 20% cost advantage, derived from cheaper labour and a cheap currency, argues Francisco Castillo of Riolindo, a Honduran fabric maker.

Mr Castillo and his colleagues say their counterparts in the United States are being myopic in opposing CAFTA. The American textile industry is shedding jobs (10% of them went last year) but to China, not Central America, notes Henry Fransen of Honduras's Manufacturers' Association. He urges the Americans to move to Honduras while they still can. Some American companies are linking up with local fabric

manufacturers such as Riolindo, or else expanding existing plants, since they expect CAFTA to come, sooner or later.

Textiles are not the only hope. Nicaragua, the poorest of the five, hopes to find export niches with peanuts, rum, cigars and cheese. CAFTA is not the “solution to the country's problems”, says Alfredo Cuadra, the head of the country's industry lobby. But it is a “big opportunity” to move up the development ladder. Several of Central America's economies were overwhelmed by the guerrilla wars of the 1970s and 1980s. For most businessmen in the region, CAFTA represents the best hope of stopping the five being overwhelmed again, this time by the forces of globalisation emanating from the east.

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India's new government

Coming down to earth

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From The Economist print edition

AP

Reformist idealism confronts grubby reality

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THE glad confident morning has passed. After the Congress party confounded expectations by winning India's election, and its leader, Sonia Gandhi, compounded the astonishment by turning down the office of prime minister, Indian politics was briefly suffused with notions of noble sacrifice and reformist idealism. Within hours, however, it was back to the murkier business of politics as usual; rewards for the loyal; sops for the proud; portfolios for the power-hungry.

Mrs Gandhi's nominee to run the government, Manmohan Singh, is dignified and cerebral, and enjoys both a reputation for scrupulous honesty and impeccable reformist credentials. Sadly, those are not the qualities needed for forming, or running, a coalition government. Like sheepdogs corralling an unruly flock only to find that there is always one outside the pen ambling towards a cliff, Congress henchmen are already struggling to keep their new coalition, known as the United Progressive Alliance (UPA), together through its very first challenge: forming the 68-member administration.

First to bolt was Laloo Prasad Yadav, of the Rashtriya Janata Dal, the longest-standing of Congress's coalition partners, and, with 23 of parliament's 545 seats, the biggest. Mr Yadav apparently thought these virtues merited a big job, namely home minister. This would have been embarrassing: he faces a number of charges of involvement in a massive corruption scandal in his state, Bihar. Mr Yadav was placated by being made minister for railways. This, too, is an important job: Indian Railways is by some measures the world's largest commercial organisation (though it would help if passengers in places such as Bihar paid fares). Another Congress ally wanted the post and is now in a huff.

The next biggest coalition partner, the Dravida Munnetra Kazhagam, from the southern state of Tamil Nadu, then threw a tantrum because it was not given the portfolios it had been promised. Its seven ministers refused to be sworn in until this “mistake” was corrected, in a shuffle that saw the first appointee as shipping minister, K. Chandrashekhar Rao, stand down. Mr Rao had a price, however: a promise of help for his party's one demand, that a separate state, called Telengana, be carved out of Andhra Pradesh.

Since Congress holds only 145 seats on its own, this wrangling raises doubts about the government's

stability. But Shaibal Gupta, an analyst at the Asian Development Research Institute, in Patna in Bihar, argues it is more solid than it looks. It will be held together by a fear of the return of the last government, led by the Hindu-nationalist Bharatiya Janata Party, and by the worry that in a snap election Congress might do even better at its partners' expense. Mrs Gandhi's act of renunciation is thought to be a vote-winner.

Policy differences are another worry, especially since the coalition will rely on the “outside support” of a 59-seat-strong Left Front, dominated by the Communists. Mr Singh is seen as the father of India's economic-reform programme (see article) as finance minister in the early 1990s. That portfolio has now gone to another former incumbent, Palaniappan Chidambaram, also known as an ardent reformer. The Communists demanded changes in the UPA's “common minimum programme”, released on May 27th, even though they are not signatories.

In two areas, the Communists have acted as a brake: radical reform of India's over-protective labour laws, a big deterrent to investment; and the privatisation of most money-making state enterprises. Congress's partners have also secured a commitment to the repeal of much-abused anti-terrorist legislation. On the whole, however, the programme reflects Congress's own agenda. It aims for annual economic growth of 7-8% through continued economic liberalisation.

The surprising strength of Congress's position can be seen in its success in holding on to the finance and three other most important portfolios. This also shows the influence of Mrs Gandhi herself. The foreign, home and defence ministers are all Gandhi-family loyalists. One of them, Shivraj Patil, the home minister, actually lost the election. He will join the prime minister and the new foreign minister, Natwar Singh, in the nominated and indirectly elected upper house of parliament.

As well as leading Congress nationally, Mrs Gandhi leads the parliamentary party and the UPA, and there have been fears of a confusion between two “power centres”. However, her new-found prestige and newly recognised political skills should actually strengthen the government. Still, the fact that only two of the top five positions are held by directly elected politicians may prove a liability. It is worrying, too, that two of the five are septuagenarians, and two more are 68.

Such is Mrs Gandhi's standing that Pakistan's president, Pervez Musharraf, has invited her to visit. Both Natwar Singh and the new national-security adviser, J.N. Dixit, are former diplomats who served in Pakistan. Congress backed the peace initiative launched last year by the former prime minister, Atal Behari Vajpayee. It now has to manage a series of technical talks, leading up to a meeting between foreign ministers in August, covering all issues, including the hardest of all—Kashmir. But Congress insists on taking an agreement signed in Simla in 1972 as a starting-point. That implies legitimising the status quo in Kashmir, and is unlikely to appeal to General Musharraf, a man Natwar Singh last year described as “a one-dimensional individual, obsessed with Kashmir”. What is needed is a victory for hope over all the bitter experience embodied in India's new foreign-policy team.

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Kashmir

A bomb on the road

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India's government inherits a peace process that could yet be stillborn

AP

Retaliation or sabotage?

Get article background

ANOTHER grim atrocity in a 15-year war that has claimed 40,000-100,000 lives, the bombing on May 23rd of a bus in Indian-administered Kashmir, stood out for its timing. It greeted a new government in Delhi still formulating its policy towards Kashmir, and towards Pakistan, which claims the territory as its own.

At least 33 Indian soldiers and their relations died. Hizbul Mujahideen, an armed group fighting Indian rule, claimed responsibility. It said it was avenging the recent killing by security forces of a number of its top leaders—in firefights, says India; in custody, following torture, according to the militants.

Despite the violence, tourism from India is booming this summer; and there are some signs that moderate opinion is gathering strength. In the recent elections, turnout in the state of Jammu & Kashmir improved from 32% in 1999 to 35%. But that masks the disaffection in the Muslim-majority Kashmir valley. In Srinagar itself, fewer than 19% of voters turned out; in neighbouring Anantnag, just 15%. India says more would vote but for intimidation by Kashmiri militants. Separatists say more would boycott the ballot but for coercion by Indian soldiers.

Omar Abdullah, of the National Conference party, the winning candidate in Srinagar, says the turnout was respectable considering the fear that still exists, but that the “disenchantment” it reflects has to be tackled. In his campaign he called for a broadening of the dialogue that began in January between the Delhi government and some separatist leaders, to include more extreme pro-independence and pro-Pakistan leaders.

That is also the policy of the new Congress government. Umar Farooq, the *mirwaiz*, or spiritual leader, of Srinagar's Sunni Muslims (the overwhelming majority of residents of the valley), joined the dialogue with Delhi, and is optimistic that it will survive the change of government. His big fear is that Kashmiris will be left out of one of the outgoing government's most important bits of unfinished business—the peace process with Pakistan.

Kashmiris, however, so far have little to show for the new mood of détente, either in terms of the promised end to abuses by Indian soldiers, or in the opening of a promised and much hoped-for road

across the “line of control” that separates Indian and Pakistani Kashmir. And the peace process is now facing a test, as the snows melt in the mountain passes through which militants cross into the Kashmir valley from the Pakistani side. India demands a continued decrease in “infiltration”. Pakistan insists that India must talk about Kashmir, and recognise there is a dispute.

To bolster his own position, and the demand for Kashmiri involvement in the peace process, Mr Farooq held a rally on May 21st in Srinagar. Perhaps 100,000 of his supporters took part, calling for freedom from India. The mood was strangely upbeat, especially in view of the rally's other purpose: to commemorate the deaths on the same days in 1990 and 2002 of Mr Farooq's own father and of Abdul Ghani Lone. Both were Kashmiri nationalist leaders, in a struggle that begets extremists. Both of them were murdered for their moderation.

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Pakistan

Back into the fold

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Pakistan rejoins the Commonwealth

Get article background

AFTER nearly four and a half years of banishment following the military coup d'état of 1999, Pakistan was welcomed back into the fold of the 53-member Commonwealth on May 22nd. There is one clear condition though: that President General Pervez Musharraf should fulfil his public pledge to step down as army chief before the end of the year.

Insisting that Pakistan's progress on the road to democracy would be monitored, the Commonwealth secretary-general, Donald McKinnon, said that Pakistan had fully to implement earlier amendments to its constitution “in letter and spirit”, including the issue of the separation of the offices of the president and army chief. The Commonwealth Ministerial Action Group had rejected Pakistan's request for readmission in September 2003 mainly because General Musharraf had not been accorded legitimacy as president by parliament at the time.

Pakistan's high commissioner to London, Maleeha Lodhi, called the move “long overdue”. She said that the Commonwealth was now in line with the rest of the world in acknowledging democratic realities in Pakistan.

But General Musharraf was visibly irked. He lashed out at Mr McKinnon for making a statement about Pakistan's “internal affairs” and rejected any conditions linked to the restoration of its membership. “Some of the countries [in the Commonwealth] that made the decision to lift Pakistan's suspension should look at their own records before criticising others,” he bristled. “If we are happy to be in the Commonwealth, the Commonwealth should be proud of having a country like Pakistan in it.”

The country's main opposition parties were also annoyed. The People's Party, led by a former prime minister, Benazir Bhutto, had written to Mr McKinnon arguing that Pakistan's membership ought not to be restored until General Musharraf stopped victimising the opposition. Ms Bhutto is in exile, her husband is in prison, and a significant chunk of her party stalwarts in parliament has been bribed or cajoled by the intelligence agencies into joining the ranks of the government.

Britain and India led the Commonwealth pack that voted to expel Pakistan after the 1999 coup and had kept it out until now. But they were among the strongest supporters of readmission last week. Britain wanted to reward General Musharraf for lending his shoulder to the war against terrorism. And India was keen to support the move in the hope that Pakistan would be encouraged to normalise relations by keeping the recently initiated “peace dialogue” between the neighbours on track.

Among the naysayers were those, like Tanzania, Lesotho and Nigeria, who remain wary of generals, given much of Africa's history of living under the jackboot. But if General Musharraf doesn't doff his general's cap by the end of the year, their ranks could very well swell sufficiently to see Pakistan smartly heaved out again at the next Commonwealth moot.

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Hong Kong

Radio silence

May 27th 2004 | BEIJING
From The Economist print edition

Is press freedom under threat in Hong Kong?

Get article background

“THE kitchen is getting hotter and hotter,” said Allen Lee last week during his final appearance on a radio talk show he briefly hosted in Hong Kong. Mr Lee, a critic of China's recent moves to restrict democratic reforms in the territory, was the third outspoken radio personality to quit this month. Could it be that mainland China is trying to muffle dissent?

Many in Hong Kong believe, without hard evidence, that mainland China has played a shadowy role in the rash of resignations. Mr Lee said that mainland officials had requested meetings with him several times since he had taken up his role as a temporary replacement for Albert Cheng, a hugely popular host of the programme “Teacup in a Storm” who had resigned earlier in the month. But he said he had refused to meet them to avoid being pressured into quitting.

Mr Lee's suggestions that Chinese officials wanted him to leave the radio job carry particular weight. He is a relatively conservative businessman who for many years had been trusted by the central leadership. Since 1998, Mr Lee had served as a member of China's legislature in Beijing, the National People's Congress (NPC). He stepped down from the post only last week, at the same time as leaving the talk show on Commercial Radio. Mr Lee had been critical of the NPC's ruling last month that Hong Kong could not have full democracy for at least another eight years. Chinese officials have said they regard any such criticism as a challenge to Chinese rule over the territory.

Albert Cheng, by contrast, had long been an outspoken critic of many of Hong Kong's leading businesspeople and supporters of mainland China. So too had Raymond Wong, who stepped down as host of another talk show on the same station this month. Both Mr Wong and Mr Cheng have cited threats and other pressure, but have not given details. Several other cases of anonymous intimidation of pro-democracy figures have been reported recently.

A panel set up by Hong Kong's legislative council has begun an inquiry into the radio hosts' resignations. They may not get very far in establishing the identities of those who may have put pressure on them. But in a climate of heightened tension in Hong Kong between the pro-democracy camp and supporters of China's hardline policies, rumours will certainly fly.

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China

Safe as houses

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Mortgage rates can go up as well as down

Reuters

High rise

LIKE affluent city dwellers anywhere, China's new and aspiring rich love to talk property. The privatisation of most urban housing since the late 1990s has unleashed a frenzy of buying that is pushing up prices and providing a new and inexhaustible topic of dinner table conversation. But mortgage interest rates, oddly, seem to be of little concern.

There are powerful reasons why they ought to be, as China's leaders ponder whether to raise interest rates for the first time in nine years in order to rein in a rampant economy. Mortgage rates are variable, with the level set annually at the beginning of the year by the central bank. An upward adjustment would make repayments more costly for millions of urban Chinese who in the last few years have borrowed heavily from banks. For these people a rate increase would be a novelty.

From near zero a few years ago, mortgage lending has grown at a blistering pace. Between 1997 and 2002, outstanding mortgage loans doubled every year on average. The banks have an enormous incentive to lend. China does not have a well-established consumer-credit culture. Most of those taking out a mortgage are first-time borrowers. But delinquency rates on mortgages are very low—less than 0.5%. By contrast, some 25% of loans to state-owned enterprises turn bad. With banks under pressure to reduce the proportion of bad debt in their portfolios, what better way than to lend more to individuals for purchasing property?

The banks have little more than an easily falsified statement of income on which to base their lending decisions. Credit-rating services are in their infancy. The banks do not have ready access to each other's files to determine whether a borrower may have undeclared debts or a history of default. They also know that taking over a mortgaged property involves cumbersome and little-tried legal procedures. This approach could even become blocked should the government feel that foreclosures might affect social stability.

So far, most urban residents do not appear to be borrowing beyond their means. But Arthur Kroeber wrote last year in the *China Economic Quarterly*, a research publication, that high rates of delinquency on old loans would be obscured by the much greater value of new loans for some time to come. Mortgage lending is very new in China and delinquency normally would only start becoming apparent in the third year of a loan, so the main banks' figures are “meaningless”, he argued.

But encouragingly for the banks, potential demand for property is still huge, given the pace of rural migration into the cities and the poor quality of housing inhabited by many urban residents. And even if China does raise its interest rates (officials have been trying to dampen speculation that this might happen soon), some analysts believe that mortgage rates may be adjusted by a lesser margin, if at all.

Andy Rothman of CLSA, a broker, says the government does not want to raise rates for mortgages and car loans because such consumption is crucial to the economy—provided the spate of over-investment in these sectors can be curbed. With inflation still less than 4%, “the one thing they do not want to do is slow down the economy,” he says.

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South Korea

Feeling exposed

May 27th 2004 | SEOUL
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Fewer American boots on the ground

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IN A country where anti-American demonstrations have periodically grabbed the headlines, the fact that South Koreans are now agonising over plans to reduce the number of American troops on the peninsula is a rather unexpected turn of events. The announcement by the Bush administration that it would withdraw around 3,600 soldiers from the country and redeploy them to Iraq has sparked alarm among many South Koreans, who fear this threatens their country's security.

The reaction underlined South Koreans' psychological dependence on the Americans' military presence, as the country grapples with the continuing crisis over North Korea's nuclear-weapons programme. American troops have been in South Korea since the end of the civil war in 1953. Some 37,000 soldiers act as a glorified tripwire, guaranteeing American involvement were a conflict with North Korea to erupt.

The handwringing in South Korea, however, overlooks the fact that the troop reduction is in line with the Pentagon's long-term military strategy, the “Global Defence Posture Review”, which envisages making the armed forces leaner and more mobile. A long-term reduction in the number of troops currently deployed in South Korea (and also Japan) is on the cards; but nothing like a complete withdrawal.

South Korean and American officials point out that this reduction will be compensated by additional air- and firepower. America has announced plans to spend $11 billion over the next three years to enhance its capabilities on the peninsula.

But relations between the two countries have been strained since the election of President Roh Moo-hyun in December 2002. Mr Roh swept into office on a wave of anti-American protests, with promises of a more equal relationship. The president has since softened his rhetoric and, following the furore over American troop levels, pledged closer co-operation. He has already agreed to send 3,000 more troops to Iraq. But the deployment has been repeatedly delayed.

The troop withdrawal, however, could prove useful as Seoul considers its own military needs. After being thrown off guard by the decision, the South Korean government announced that it was stepping up plans to improve its defence capabilities. The government is quietly conducting its own defence-posture review.

Considering defence requirements now will better prepare South Korea to take greater responsibility for its own security in the future. The country will maintain its close links with the United States, in line with Seoul's “co-operative self-defence” policy. The alliance, however, is likely to rely increasingly on industrial military co-operation and the use of American forces as an ultimate security backstop, rather than on many ground troops. Reports of the demise of the alliance between South Korea and the United States are likely to prove premature.

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Indonesia

The famous five

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The presidential campaign is kicking off

Get article background

AFTER weeks of shadow puppetry, Indonesia's five presidential candidates are about to get down to the serious business of winning over the country's around 150m voters. The formal campaign for the country's first direct presidential election, scheduled for July 5th, kicks off on June 1st. If the polls are to be believed—and they were impressively accurate in the April legislative elections—a retired general and former chief security minister, Susilo Bambang Yudhoyono, is way ahead of his rivals, with more than 40%. He is even further ahead when voters' second choices are factored in; these will matter if their preferred candidate does not make the second round scheduled for September 20th.

The incumbent, Megawati Sukarnoputri, is running second in the polls, and third is an ex-military chief, Wiranto, who surprisingly won the nomination of the Golkar party, the largest in parliament. Trailing are Amien Rais, the head of Indonesia's upper house, and the current vice-president, Hamzah Haz. The sixth nominee, former president Abdurrahman Wahid, was banned from running on health grounds. He is suing the election organisers, claiming a political witch-hunt against him.

Mr Wiranto, backed by Golkar's slick party machinery and a bulging war chest, might attract much of the 20% who remain undecided. But anecdotal evidence suggests voters frown upon his links with the country's ex-dictator, Suharto, and on his questionable human-rights record. His nationalistic economic advisers are also causing jitters in the financial community.

Miss Megawati's lacklustre performance over the past three years is expected to prove costly. Her choice of Hasyim Muzadi, the head of a 30m-strong Muslim organisation, Nahdlatul Ulama, as her running mate is not expected to lift her rating much. Voters are not necessarily backing the candidates of the party they voted for in April, or of mass organisations to which they belong. Personality and perceived credibility are predicted to be much more decisive in swaying opinion.

Much harder to assess is what any of the candidates actually stands for. A series of proposed debates may help to clarify matters, but with the potential for violence and terrorism ever present and the stakes so high, the chances of a smooth campaign are remote.

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South-East Asia's economies

No China syndrome

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From The Economist print edition

China's growth may slow, but that need not be bad news for South-East Asia

EVERY time South-East Asia's economies appear to be taking off again after their crash-landing in 1997, an unexpected squall forces them back down to earth. In 2001, the global tech slump put a stop to a nascent export-led recovery. Last year, fears of terrorist attacks and an outbreak of SARS, a deadly respiratory disease, took the shine off what could have been the region's best year since the crisis. Now, economists are worrying that high oil prices and a slowdown in China will weigh South-East Asia down again.

For the moment, it is flying high. The Singaporean economy grew by 7.5% in the first quarter compared to the previous year, and Malaysia by 7.6%. Thailand and Vietnam are growing equally fast, while even relative laggards such as Indonesia and the Philippines turned in surprisingly good performances in the first quarter, with 4.5% and 6.4% respectively. Yet the region's stockmarkets have taken a beating recently: Thailand's has fallen 20% since the start of the year. On May 25th, Thailand's normally sanguine Ministry of Finance reduced its growth forecast for the full year from 7.9% to 7.1%.

The high price of oil is certainly fuelling this gloom. Of the big economies in the region, only Vietnam and Malaysia are net exporters (although Indonesia's gas exports more than offset its oil imports). A recent study by the International Energy Agency, a think-tank, suggests that high oil prices will hurt developing countries more than wealthy ones, because they use more oil relative to their national output. If oil prices stay above $35 per barrel for a year, the study estimates, growth in the Philippines will be dented by 1.6%, and by 1.8% in Thailand.

But there are reasons to be more optimistic. Thailand, among other countries, subsidises oil, so the high price does more damage to the government's (relatively healthy) accounts than to the economy as a whole. Anyway, most commodity prices are high at the moment, including those of products such as palm oil, rubber and rice that South-East Asia produces. When the cost of importing oil is weighed against revenues from exporting these other commodities, most South-East Asian countries come out ahead—in the case of Indonesia, by as much as 6% of GDP.

Furthermore, as Tim Condon of ING bank points out, there has been a clear correlation between high oil prices and strong growth in Asia in recent years. That is presumably because Asian demand helps raise the oil price, rather than the other way around. The region's economies might be growing even faster if oil were cheaper. But it would certainly be wrong to assume that expensive oil will lead inexorably to a regional slump.

Nor will a slowdown in China necessarily spell disaster. True, China's imports from South-East Asia have rocketed in recent years (see chart). In 2003 alone, Singapore and Thailand's exports to China grew by about 50%, while those of the Philippines almost doubled. But that surge began from a relatively low base. America still imports far more from South-East Asia than China does.

China also accounted for a large share of overall growth in exports from the region last year: over a quarter, for example, in both Malaysia and Thailand. But that stems in part from weak demand in other big markets, including America, Europe and Japan. If those economies continue to improve—as looks perfectly plausible in the case of at least the first and the third—the increased demand for South-East Asian exports should more than make up

for any shortfall from China.

What is more, argues Dominique Dwor-Frecaut of Barclays Capital, a high proportion of China's imports from South-East Asia end up as components of subsequent exports. Demand for those depends more on the strength of the world economy than China's. The World Bank estimates that a 10% decline across the board in China's imports would knock only half a percentage point off growth in Thailand, for example. But the Bank's analysts also point out that South-East Asia's share of China's imports has been growing, so any decline is unlikely to be across the board. Finally, a slowdown in China might also help cool the overheating oil market.

In fact, the biggest threats to growth in South-East Asia are domestic rather than external. In Thailand, for one, the government's failure to press ahead with its privatisation programme has depressed the stockmarket. A mysterious insurgency in the Muslim-majority areas in the south of the country has spooked investors. As a general election draws near, policymaking is becoming more populist. In the Philippines, widening government deficits and rising public debt have done far more damage than high fuel prices. Indonesia's corrupt and unpredictable courts have brought investment there to a standstill. These problems may be intractable, but at least they are internal matters over which governments in the region—theoretically—have some control.

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Iraq

The battle for sovereignty

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It will be hard for America to persuade Iraqis that sovereignty will truly be theirs and that their new government will be no stooge

WITH the heralded handover of power in Iraq from Americans to Iraqis only five weeks away, arguments over the degree of independence to be accorded to an interim government in Baghdad are hotting up. The UN's envoy to Iraq, Lakhdar Brahimi, is poised to give the Americans a list of Iraqis he thinks suitable for jobs in an interim government due to take over at the end of June. But two of the UN Security Council's five permanent members—France and Russia—are loth to pass a new American-British resolution endorsing the handover until they have vetted Mr Brahimi's list and are satisfied that the Americans are handing Iraqis real power.

The Americans, generals as much as politicians, remain deeply reluctant to lose control on the ground. Most Iraqis and most involved outsiders, however, argue that security will not improve until enough Iraqis are convinced that the big decisions in their country, including strategic military ones, are being taken by Iraqis. To complicate matters more, Britain's Tony Blair, seeking (perhaps for domestic reasons) to put some distance between himself and George Bush, seemed, for the first time over Iraq, to side with the Europeans.

Meanwhile, Mr Brahimi has been trying to choose a plausible team, which he is expected to announce by the end of this month. Its backbone—he has apparently decided—will be provided by members of the current American-appointed Governing Council (GC), the dominant political body in the country under the Americans. A venerable Sunni on the GC, Adnan Pachachi, is still being touted as the likeliest interim president, with little executive power, while a 62-year-old nuclear scientist, Hussain Shahristani, a Shia locked up for 11 years in Abu Ghraib prison under Saddam Hussein, apparently turned down an offer to be prime minister. The new government's first aim will be to prove that it is no mere American stooge.

The Americans have been gradually transferring power to Iraqis for some weeks. Locals now run a dozen ministries, including those in charge of health and education. Their budgets are pretty well covered by oil revenues, now flowing in to the tune of $14 billion a year. The Americans' draft UN resolution grants Iraqis most of the country's financial oversight. This week the port of Umm Qasr is due to be ceremoniously handed over to an Iraqi director-general, while foreign companies have been asked to bid for contracts worth $200m to revamp the harbour in return for getting half of its future income. American

aid agencies, however, will continue to spend much of the $33 billion pledged at last year's donors' conference in Madrid.

But the most ticklish issue is security—and who should control it. The latest American idea is for a national security council, on which the new Iraqi defence and interior ministers will sit, alongside the American and British ambassadors and an American general who could veto major military decisions. In a speech this week designed mainly to rally support at home, President Bush, without naming a departure date, said he would keep the present tally of 138,000 American troops in Iraq “as long as necessary”. He also said that America would help train some 260,000 Iraqi soldiers, police and “other security personnel”, while aiming to create a permanent Iraqi army of 35,000.

The Americans say they will closely consult their Iraqi counterparts—until the latter assume full responsibility. But, in the draft UN resolution's words, the (American-led) “multinational force shall have authority to take all necessary measures to contribute to the maintenance of security” in Iraq, with its mandate due for renewal after a year. There would be a “partnership” between the multinational force and Iraq's “sovereign interim government”.

That sat oddly with Mr Blair's assertion this week that “the ultimate strategic and political decision-making passes to the Iraqi government after June 30th”. Some diplomats sought to square the circle by differentiating between “operational control”, to be kept by the Americans, versus “strategic control” in the hands of Iraqis.

Plainly, that would leave grey areas. The initial American decision two months ago to attack insurgents in Fallujah might have been considered operational but would soon have become strategic and political. It is unclear who would arbitrate in future similar instances. An eventual UN resolution, while giving still more power to Iraqis, may nonetheless leave the Americans with room for manoeuvre. Yet any ambiguity, say pessimists, could store up trouble for a rancorous future. It is inconceivable, in any event, that Mr Bush would let Iraqis give direct orders to his generals.

Mr Brahimi still has hard choices on the political front. Though he is unlikely to offer jobs in the interim government to politicians close to the Shia firebrand leader, Muqtada al-Sadr, who has been stirring up revolt against the American-led coalition, he might recommend that they be included in a “national tent” (a conference of over 1,000 Iraqis) that will in turn elect a consultative council to advise the new government. While holding back from an all-out onslaught, American forces have continued to clobber Mr Sadr's militias here and there; this week, after scores of militiamen had been killed, there were signs they would agree to withdraw from Najaf, the Shias' holiest city.

At the other end of the Iraqi political spectrum, the Americans have dropped Ahmed Chalabi, whom the neo-conservatives in the Pentagon had long promoted as a potential leader of the new Iraq. After a raid on his house in Baghdad by Iraqi police supported by American forces, apparently in an effort to uncover evidence of corruption and to find links with the Iranian intelligence service, Mr Chalabi furiously declared that he had cut off relations with the coalition authority, while denying all the accusations of treachery that are now being thrown at him.

While many of Mr Bush's opponents suspect that the president is preparing a rapid exit strategy from Iraq, he insists he will not cut and run. Judging by this week's speech, Iraq's scheduled general election in January is the crucial date on the Iraqi calendar—more so even than June 30th. Whether it can be reached without the chaos and bloodshed getting worse is painfully uncertain—whoever is truly in charge, Americans or Iraqis.

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Islamists in Lebanon

On the rise

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Why militant Shias are on the rise in Lebanon too

AP

Nasrallah on a Lebanese wave

IT HAS been a good week for Hizbullah, the party-cum-militia that holds sway among the largest of Lebanon's 18 religious groups, the Shia Muslims. The “party of God” has prevailed, even more convincingly than before, in municipal elections across the country's Shia-dominated south and east. It also sponsored the country's biggest demonstration in many years, bringing some 250,000 people on to the streets of Beirut, the capital, to protest (at the same time as similar Shia rallies in Bahrain, Iran and Pakistan) against America's armed incursions into Iraq's holiest Shia cities, Najaf and Karbala. In Beirut, Hizbullah also celebrated the fourth anniversary of Israel's withdrawal from southern Lebanon, an event much due to the party's fighters.

America still deems Hizbullah a terrorist group. In any event, with its schools, clinics, media outlets, charities and large following, it has never looked stronger. Yet it must still tread a fine line between rousing rhetoric and practical policies. In the town-council polls, for instance, its reputedly less corrupt candidates stole support from the rival, Syrian-backed Shia party, Amal. But Hizbullah cannot afford to annoy Syria too much, because it relies on it as a conduit for the arms it gets from its ultimate patron, Iran. Worried as Syria now is by the hostility of America, its tolerance of Hizbullah could suddenly cease.

The party must also be wary in its relations with Iraq's Shias. Many of them, including their highest religious authority, Grand Ayatollah Ali Sistani, put the blame for defiling those holy sites fairly equally between American troops and the militiamen of the Iraqi Shias' rebel leader, Muqtada al-Sadr, who is wanted for the murder of another Shia cleric.

Hizbullah's leader, Hassan Nasrallah, may win cheers for likening America's occupation of Iraq to Israel's bloody 18-year stay in Lebanon. But he must recognise that Iraq's “resistance” differs from Lebanon's: it includes not just wild-eyed Sadrists but calculating Sunni extremists who think the Shia a worse curse than the Americans.

Similarly, Mr Nasrallah may rankle Israel by praising the “martyrdom operations” of Hamas, the Palestinians' leading Islamist group, and by keeping fighters on Lebanon's border with Israel. But he knows Hizbullah must stop short of provoking the Israelis, not only since they are far better armed but because many of his fellow Lebanese prefer to get on with life than toy with death.

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The Arab League

Hot air and cold truths

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From The Economist print edition

Under the rhetorical guff of summitry, a sense of reality was almost detectable

THE summit meeting of Arab leaders in Tunis last week was supposed to have been about two things: political reform and a uniform stand on thorny issues such as Iraq and Palestine. In the event, the more thoughtful parts of the Arabic press coverage did indeed reflect uniformity and reform of a kind. Commentators from Morocco to the Gulf, in unprecedentedly uniform derision, variously deemed the meeting “ridiculous”, “a failure,”“empty rhetoric”, “instantly forgettable”. This expression of freedom to savage the kings and presidents-for-life who run the region was itself a better omen for reform than the verbiage of the communiqués.

Not that expectations were high. The dream of what was once known as “the Arab system”, bound by regional institutions and rituals such as annual summit meetings, has long clashed with the reality of bitter incompatibilities between the league's 22 members. The strains have lately been further tested by the muscular regional agenda of the world's lone superpower. America's invasion of Iraq, its support for Israel, its icy hostility to old adversaries such as Syria, its aloofness from old friends such as Egypt and Saudi Arabia, and its sudden interest in promoting democratic values have shaken Arab palaces and streets alike. Moreover, the last time Arab leaders together offered something bold—a comprehensive peace with Israel, in March 2002—the West, especially America, seemed to take little notice.

This time, the 13 heads of state and nine lower-ranking representatives who finally met in Tunis (after the meeting's embarrassing postponement two months ago) made a stab at addressing both their own peoples' and the Americans' concerns. The final communiqué restated a commitment to a comprehensive Palestinian-Israeli peace and made a new gesture to Israel by condemning “all operations that target civilians, without distinction”. It also, unsurprisingly, condemned President Bush's recent rejection of the Palestinians' “right of return” to Israel proper and his assertion that Israel would not be expected to give up all the Palestinian territory it has occupied since 1967. The meeting's oddest moment was when Libya's Muammar Qaddafi, who has recently accommodated himself to America, walked out, muttering that his fellow leaders' cigarettes were American, just as they themselves were American stooges.

The mere inclusion of the word “reform” on the agenda was seen by some countries, such as Syria, as bowing to American pressure. Yet even Syria was enticed into committing itself to such things as “widening the sphere of public participation in government” and “enhancing the role of women”. Such pledges were, however, notably vague.

In a statement of protest, 34 Arab non-governmental organisations from 14 countries complained that there was no specific timetable for change or for elections. It was not the voice of a few hot-headed human-rights campaigners: when a gathering of well-heeled, mainly Arab businessmen were asked at a recent World Economic Forum in Jordan whether they thought their governments were sincere in claiming to want reform, 94% said no.

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Sudan

A triumph marred by terror

May 27th 2004 | NAIVASHA, N'DJAMENA AND WEST DARFUR
From The Economist print edition

North and south Sudan have made peace. But the west still blazes

AFP

Get article background

AMID prayers and joyful ululations, Sudan's government and southern rebels surmounted the last obstacles in the way of peace. On May 26th, near the Kenyan town of Naivasha, the vice-president, Ali Osman Taha, and the leader of the Sudan People's Liberation Army (SPLA), John Garang, finally agreed on how the two sides would share power for the next six years. A formal peace deal is expected soon, perhaps in July. “We have reached the crest of the last hill,” said Mr Garang, “The remaining [terrain] is flat”.

In a narrow sense, he is probably right. The war between north and south Sudan, which has cost some 2m lives, does indeed appear to be over. The proposed transitional government will not be pretty—last-minute haggling reduced to a handful the number of parliamentary seats allotted to peaceful opposition groups—but war is uglier. Sadly, the north-south conflict is not the only one in Sudan.

In the western region of Darfur, the government is fighting two black Muslim rebel groups that took up arms last year in protest at ill-treatment by Sudan's Arab elite. To crush the rebels, the government in Khartoum, the capital, has given an Arab militia, the *janjaweed*, a licence to rape, murder and terrorise black Africans in Darfur, who are presumed to back the rebels. Some 1.2m have been driven from their homes, and perhaps 30,000 killed.

In four days riding on horseback through West Darfur with the Sudan Liberation Army (SLA), the larger of the two rebel groups there, your correspondent passed 14 villages, all torched and deserted. The *janjaweed* had smashed and burned all the granaries, to starve the locals into submission. Such horrors recruit new rebels. Abdel Rahman, a golden-robed fighter, says he quit his job as a lawyer after the government obliterated his home village last year with “barrel bombs” filled with metal shards. Furious, he joined the SLA.

Lacking regular supply lines, the rebels subsist on goats, onions and the occasional bit of salt donated by friendly peasants. They could probably mount hit-and-run operations, but not much else, should they choose to break the ceasefire, as the government repeatedly has.

In recent weeks, the fighting has spilled into neighbouring Chad. Idriss Déby, Chad's president, is friendly with Sudan's president, Omar al-Bashir, who backed the coup that brought him to power in 1990. Mr Déby appears tacitly to support Mr Bashir's terror campaign. Many in his cabinet do not, however. Nor do

many officers in Chad's army. Some have kinship ties with the rebels in Darfur and have supplied them with arms. In response, the *janjaweed* are encouraging Arabs in eastern Chad to attack black Muslims there, in the hope of creating chaos and stemming the flow of weapons to the rebels.

In the past month, the *janjaweed* have also launched their own raids into Chad. In a hot, overcrowded hospital near the frontier, Chadian soldiers lie groaning. “We were on patrol when they ambushed us,” rasps one, blood and pus oozing from two bullet wounds in his belly.

Last week, a section of Mr Déby's presidential guard mutinied. The insurrection was quickly crushed. The capital, N'djamena, was shut down and the mobile-phone network, the mutineers' main means of communication, was disconnected. The government dismissed the affair as a row over pay. But diplomats think it was a coup attempt, and fear an encore.

That would irk the United States, which sees Mr Déby as an ally in the war on terror. American officials say that Chad's vast desert teems with terrorists. The remote Tibesti mountain range, which runs along Chad's borders with Libya and Niger, is “Africa's Tora Bora”, says one.

To counter the threat, American special forces are teaching soldiers from Chad, Niger, Mauritania and Mali how to catch terrorists. In March, with the help of American spy-satellites, Chadian troops killed 43 Algerian Salafist militants who, Washington claimed, had pledged allegiance to Osama bin Laden. A western security source said that American soldiers took part in the operation on the ground.

Mr Déby is a thuggish autocrat, but he has kept Chad more or less stable. If he goes, the ripples will be felt throughout the region. Libya's Muammar Qaddafi might sense a power vacuum and renew his support for rebels in northern Chad, where Libya has territorial claims. The unpopular dictator of the Central African Republic, François Bozizé, who owes his job to Mr Déby's troops, could be ousted.

Meanwhile, back in Darfur, aid workers predict that between 150,000 and 350,000 people will die in the next nine months from hunger and disease if Sudan's government does not stop hindering relief efforts.

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France and farming

Nostalgie de la boue

May 27th 2004 | VELLERON, VAUCLUSE
From The Economist print edition

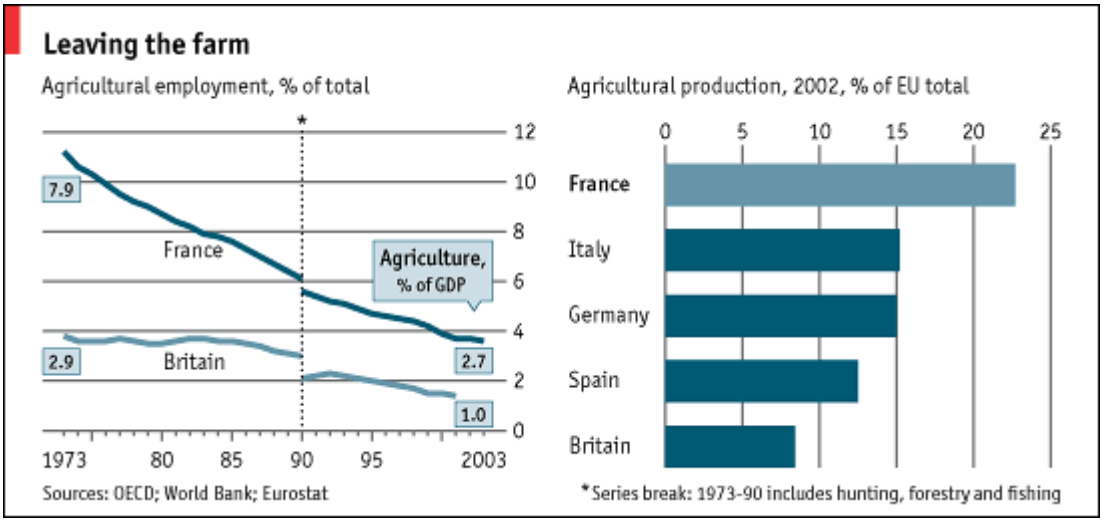
Corbis

Why France is still so keen to support and protect a declining business

Get article background

WHEN President Jacques Chirac visited the agricultural fair in Paris in March, he stayed for three hours. He was upstaged a few days later by his prime minister, Jean-Pierre Raffarin, who squeezed in an astonishing seven hours. Such is the lingering hold of farming on the French imagination that no self-respecting politician can ever miss the chance to pose with a heaving Charolais bull, or to cuddle a kid goat. Now France's strange bond with farming is under fire once again. The European Commission wants to revive the Doha round of world trade talks by offering to eliminate all export subsidies for farm products, a concession that is fiercely resisted in Paris. What is it about the French and farming?

France is, admittedly, the European Union's biggest overall producer by some way (see chart); it leads in cereals, sugar beet, cattle and poultry. It also has more farmland—making up 22% of the EU 15's agricultural surface area—than any other EU country. A founder member of the European project and chief architect of its much-derided common agricultural policy (CAP), it is also the biggest beneficiary of EU farm subsidies.



Yet the importance of agriculture in France, as elsewhere, has shrivelled. In 1958 one in five French workers was engaged in farming; today, that share has shrunk to just over 3%. Farming accounts for a shade under 3% of GDP, a bit less than as it did in Britain 30 years ago. Young people are less keen to take on their parents' farms; they are leaving in droves from such upland places as Auvergne or Vaucluse. “It costs too much, the weather's too unpredictable, and it's hard work,” says a retired sunflower and wheat farmer near Velleron, in Vaucluse, whose son has decided not to stay in the business. “Young people here would prefer a steady job at the town hall.”

Given this change, why does farming continue to cast its spell over French people and their politicians? Much is down to nostalgia and tradition. From its landscape painters to its culinary prowess, France's image of itself is rooted in the land. Behind the pseudo-rustic packaging of provençal honey or olives in cloth-topped jars, there is a genuine link between local produce and the cuisine of different *terroirs*. Although most French towns are ringed by vast hypermarkets, shoppers still flock to cheaper and fresher street markets. The daily farmers' market in Velleron, where local producers turn up in the evening after a day in the field to sell thick white asparagus or early strawberries from the back of their pick-ups, is always thronged.

Another explanation is geography. France is big, wide and relatively empty: over half its surface area is farmland, and some four-fifths of the country is rural. The French economy industrialised relatively late, so family links to farms and villages still linger. And the French are keenly aware that it is their farmers who keep the countryside the way that the tourists who descend on it each year like it.

But the most important explanation is political. Farming made Mr Chirac's career. He was first elected to parliament in Corrèze, in rural Limousin, in 1967. His first cabinet job, in 1972, was as agriculture minister. His wife, Bernadette, has been a local councillor in Corrèze for over 30 years. In the most recent campaign, she appeared with a startled piglet in her arms, begging it not to pee on her while the photographers snapped. Despite the odd liberal voice within his government, it is Mr Chirac who dictates farm policy—and that means fighting to preserve the CAP. “It's not a political battle that you can win,” comments one reform-minded official, “so it's not one worth fighting.”

Hence the instant French condemnation of the offer by Pascal Lamy, the (French) EU trade commissioner, to scrap farm export subsidies. Hervé Gaymard, the farm minister, dismissed it as “unwelcome”, and denounced the Americans for increasing their own farm support. In parliament, Jean-Claude Carle, a centre-right senator from Haute Savoie, declared himself “shocked, not to say scandalised” by Mr Lamy's plan. The French now have a line, first drawn by Mr Chirac a year ago, that any concessions on export subsidies must benefit poor African countries. “If it is to help poor countries, yes; if it is to help rich counties increase their market share in Europe, then no,” says one official.

Helping Africa is a laudable objective. But French concessions in the name of reform do not always amount to much. The deal hatched between Mr Chirac and Germany's Gerhard Schröder in late 2002, which freezes CAP spending in real terms until 2013, was hailed in France as a big concession. The more liberal-minded hoped that it might force through deeper CAP reform, by holding down spending even after the ten new EU members had joined. Yet, with these (farm-intensive) arrivals queuing up for their turn at the trough, it looks more like a deal to shelter the CAP from a radical overhaul.

Does France have so much to fear from reform? Mr Gaymard told *Le Figaro* this week that “without the

CAP, our agriculture would disappear". Really? Many of its big farms are highly efficient. The yield per hectare of sugar-beet producers, for instance, is higher than in any other country in Europe, and 25% above Germany's. Much CAP support has gone to mechanised big farms, such as the cereal growers of the Paris basin. Yet most French farms are small and family-run, and eke out a living without much help from Brussels. Those who raise pigs and poultry, grow fruit and vegetables or make wine get little CAP support. Brittany pig farmers and Bordeaux wine growers, for example, are in trouble thanks to falling prices and flagging consumption—and no help is coming from Brussels.

The French dislike talking of farming in vulgar terms of efficiency. Farm support is not about competitiveness, but the need to keep the French countryside—its jobs, its hedgerows, its olive groves—as it is. In some ways, policy is moving this way. Under past CAP reforms, subsidies are being "decoupled" from production, removing the incentive to over-produce. Instead they are being converted into direct payments to farmers linked to respect for the environment, food safety and animal welfare.

Yet even this sensible switch vexes some in the French government. Officials fret that it will, in effect, create a new class of state-employed, risk-averse rural gardeners. And farmers fear emasculation. "We want French agriculture to be about production," says Jean-Paul Bastian, of FNSEA, the farmers' union, "not just about turning us into caretakers of the land."

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The Paris airport disaster

A crushing blow

May 27th 2004 | PARIS
From The Economist print edition

The aftershocks from a collapsed airport terminal

AP

Terminal disorder

EARLY on May 23rd, a 30-metre section of the glass-and-steel roof at terminal 2E of Paris Charles de Gaulle airport collapsed, crushing everything beneath it. Four people were killed; more would have been had it happened at a busier time, or if policemen had not evacuated some 80 people when cracks appeared. The disaster has shaken France. “How was this possible?” asked *Le Parisien,* above a full-page photo of the collapsed structure. The terminal was opened less than a year ago. Its dashing architecture, like a giant curved earthworm lined with a concrete honeycomb, was widely seen as a showpiece of French engineering and design flair. Airports, said *Le Monde*, are not just buildings but “shop windows, ambassadors designed to give the whole world the best impression of French *savoir-faire*.” The collapse was an “earthquake for France's image”.

Until an official inquiry is completed, the precise cause of the collapse will be unclear. Theories range from design faults and construction errors to a rush to finish the job and budget constraints. Paul Andreu, the architect who designed the terminal for Aéroports de Paris (ADP), the state-owned airport company, and Hubert Fontanel, the chief engineer, each confirmed that there had been cracks early on, but insisted that the problems had been resolved. Mr Andreu said candidly that he “didn't think that he'd made a mistake” in the design, and added that the project had been under cost constraints. The possibility that the entire terminal might have to be pulled down has not been ruled out.

This is bad news for ADP. The company has been trying to build up Charles de Gaulle, the world's eighth-biggest airport, as a rival to London's Heathrow and to Frankfurt. The new terminal, with another satellite under construction, is due to serve the Airbus 380, the giant 555-seater aircraft scheduled to begin flying in 2006. ADP has also been winning lucrative design work for airports abroad, including new terminals at Abu Dhabi and Shanghai. Such ambitions may now be open to question, as will government plans to start privatising ADP next year. For Air France, too, the collapse is a setback. The terminal is critical to the airline's efforts to create a hub for its flights and for those of its partner airlines in the Sky Team alliance.

Plainly, the prestige of Paris has taken a knock. But the political fall-out may not be so damaging. The prime minister, Jean-Pierre Raffarin, was on the spot soon after the collapse, as was his transport minister, Gilles de Robien. President Jacques Chirac expressed his “profound compassion”. If nothing else, the government has learnt from last summer's heatwave tragedy, when some 15,000 people died but the government was painfully slow to respond.

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Spain's new government

Zapping along

May 27th 2004 | MADRID
From The Economist print edition

A newish prime minister pushes a progressive social agenda

AFTER his surprise win in March's election, Spain's new prime minister, José Luis Rodríguez Zapatero, announced that he would withdraw Spanish troops from Iraq as soon as possible. This week the last Spanish soldier duly came home. Two-thirds of Spaniards backed the withdrawal; Mr Zapatero's ratings have soared. Opinion polls suggest that his Socialist Party is running 9-14 points ahead of the opposition People's Party in the European elections on June 13th. He is also winning support for social progressivism.

AP

A more traditional Spanish wedding

Indeed, after eight years of the confrontational style of José María Aznar's government, the more congenial Mr Zapatero is in a state of grace. In marked contrast to the Castilian dogmatism of Mr Aznar, he has set out an unabashedly politically correct, secular platform, to reflect the diversity of modern Spain. For example, in his first parliamentary speech after the election, he promised to make equality between the sexes an “emblematic task”. His first move was to appoint eight women to his 16-strong cabinet, putting Spain on a par with Sweden for ministerial sex equality. The most powerful is María Teresa Fernández de la Vega, the first vice-president. A few still complained that the macho jobs such as defence, the economy and the interior went to the boys.

In another sign of commitment to sex parity, Mr Zapatero has pledged to reform the electoral system to ensure that the same number of women as men stand as candidates in elections. He has also outlined plans to legalise same-sex marriages and to give gay couples the right to adopt children. “Homosexuals and trans-sexuals deserve the same treatment as heterosexuals, and have the right to live freely the lives that they have chosen,” he declared.

Mr Zapatero even plans to change the Spanish laws of succession, ending male primogeniture, so that a woman may succeed to the Spanish throne. This reform, which appears to have the royal nod, will not be retrospective, so it will not affect Crown Prince Felipe, who has two older sisters. The prince was married in Madrid on May 22nd, in a suitably sombre ceremony, to a former television news presenter and divorcée, Letizia Ortiz. In keeping with the mood of the times, the wedding was criticised by some for failing to represent religions other than Roman Catholicism, and by others for shamelessly breaking with traditional practice by omitting holy communion.

Much to the chagrin of the Catholic church and many in the People's Party, Mr Zapatero has promised also to liberalise the country's tough abortion laws, and to change the law on the use of human embryos,

in both cases bringing Spain more into line with the rest of Europe. And he has suspended Mr Aznar's legislation that made religious education obligatory, prompting the Bishop of Segorbe-Castellón to call those who back the move barbarians. In regions where the People's Party still holds power, such as Madrid, religious classes will remain obligatory.

Most of these socially progressive measures have been welcomed by the young who were prominent among the estimated 1.6m voters who switched to Mr Zapatero in March—hence his continuing popularity. But he may struggle to keep up the momentum. Since he did not expect to win the election, he came to office with some grand, airy and potentially expensive promises. He has, for instance, scrapped Mr Aznar's National Hydrology Plan, under which water was to be diverted from the River Ebro to the parched south, but without suggesting an alternative. He has put in place plans to unify Spain's bewildering array of mutually suspicious intelligence and security services and promised to employ 36,000 more policemen over the next four years. The government has already modified its pledge to build 180,000 houses at “accessible” prices. But it still plans to raise the minimum wage in July, from €460 ($560) a month to €490, and it wants to push it to €600 by the end of the legislature.

Mr Zapatero's biggest challenge will be Spain's autonomous regions, which want more powers. One gesture he has made is to promise to reform the Senate, which has been an impotent arm of the Cortes, so that it represents the 17 regions. In general, Mr Zapatero has promised to respect the constitution and seek “approval by majorities that represent an ample political and social consensus.” This week, he held a first meeting with the People's Party leader, Mariano Rajoy, in an attempt to find common ground. He will now meet the Basque and Catalan nationalist leaders as well. For all his passion for pacts, consensus and dialogue, he may find that it will not be long before some petulant fists start banging the negotiating table.

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Russian reform

Mixed signals

May 27th 2004 | MOSCOW
From The Economist print edition

A big step towards WTO membership, but sidesteps elsewhere

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AFTER years of deadlock, the main obstacle to Russia's admission to the World Trade Organisation (WTO) vanished with mysterious ease. On May 21st Pascal Lamy, the European Union's trade chief, and German Gref, the Russian economy minister, struck a deal. Among other things, the Russians promised to raise gas prices for domestic industry from around $30 per thousand cubic metres to $49-57 by the end of 2010.

This was a big win for Russia. The EU's original target—that domestic gas prices be raised to match export prices of over $100, which Europe pays for most of its Russian gas—is so far in the future as to be out of sight. Russia also secured relaxed timetables elsewhere. It has until 2007 to liberalise its telecoms market, and it may well take longer before competitors to the state-owned Rostelecom get licences and set up shop. It also has until 2013 to clean up or scrap its over-priced and murky system of over-flight fees for foreign airlines.

What did the EU get in return for its sudden generosity? The answer is unclear. On the day of the announcement, President Vladimir Putin seemed to come out strongly in favour of ratifying the Kyoto protocol on climate change, because “the EU has met us halfway in talks over the WTO.” The protocol needs ratification by Russia if it is to come into force. If it happened, it would be a huge coup for the Europeans over the Americans, who have refused to ratify Kyoto.

Yet EU officials say that the Russians never raised Kyoto as a bargaining chip. And Mr Putin left a big loophole by saying that ratification still depended on the exact conditions. His chief economic adviser, Andrei Illarionov, continues to rail against Kyoto, which he says will hold back Russia's growth. “My opinion has not changed,” he said this week, adding cryptically “and it's not only my opinion.” He would not be drawn further, saying only “when I am free to add something, it will be loud and clear.”

Russia must still negotiate WTO entry with other members, including America, which will push for a crackdown on software and music piracy. But the EU was the biggest problem. If it does collect all the necessary approvals for WTO entry, late next year or in 2006, headline promises will matter less than the general framework that membership imposes. “Russia will need to change lots of laws to bring customs codes and other things in line,” says Al Breach of Brunswick UBS, a Moscow investment bank. Although some bits of Russian industry, such as cars, will struggle to stay afloat in the WTO, others that Russia has barely developed, such as telecoms and financial services, will benefit from an influx of foreign investors drawn by the promise of clearer rules. “Russia wants foreign entrants more than most WTO countries,” says Mr Breach.

So it is strange that, in his annual speech to an increasingly docile parliament this week, Mr Putin made no mention of the breakthrough with the EU, and only a fleeting reference to the WTO. He spent more time talking of Russia's proposed economic union with other ex-Soviet states, a far-off prospect with dubious economic benefits. The speech disappointed those hoping for signs of bolder reforms in Mr Putin's second term.

Mr Putin promised that there would be no “radical revision of economic policies”, but said little as to what the policies would actually consist of. That was taken as a sign that Russia's business magnates, cowering after the attacks on Yukos, an oil company, need not fear an all-out assault. But, as with his promise on Kyoto, it was commitment-free. He also dwelt on the need to improve housing, health and education, but seemed to lose touch with reality by saying that the goal of doubling GDP in a decade,

which he set last year, could now be achieved by 2010 if the 8% annual rate of growth in the first quarter of 2004 were sustained. (This was not even mathematically true, but his ministers burst into applause anyway. “That must mean they agree,” he joked.) He dropped all mention of slimming down and professionalising the army, a previous obsession of his, and instead bowed to the generals by promising that the armed forces and above all the strategic nuclear forces—which earlier this year publicly embarrassed him with a round of failed missile launches—would be lavished with the latest equipment.

Moreover, although Mr Putin talked at length of the need for democracy and civil society, two bills now before parliament undermine those very things. One makes calling a referendum by popular petition virtually impossible; the other brings the state audit chamber under the president's control and prevents it from examining the presidential administration's accounts. If Mr Putin has not yet lost touch with reality, he certainly seems to want to.

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Norway

Spring strikes again

May 27th 2004 | OSLO
From The Economist print edition

A troublesome annual ritual

MAY should be a happy month for Norwegians. Warmer weather allows for the first *utepils*, or beers drunk outside. Newspaper readers (no other nation is so devoted to the press) venture out to balconies and outdoor cafes. The May 17th national day is celebrated with feasts of meat, cheese and fish. This year was especially jolly, as it marked 99 years of independence from Sweden.

But another May tradition threatens the fun: strikes. Last week, nearly 3,000 workers at a dozen breweries briefly went on strike, leading the makers of Ringnes, the much-loved national beer, to talk of shifting production to Poland. Journalists also downed pens for several days, leaving newspapers nothing to publish but advertisements. A five-week strike by transport workers has left supermarket shelves bare of vegetables, eggs, milk, cheese, washing powder and nappies. “It's suddenly more like eastern Europe was,” said one Oslo resident, unimpressed by empty shops in the capital of one of Europe's richest countries.

Neighbouring Swedes and Danes were quick to gloat. Gleeful callers to a Danish radio station promised to dispatch toilet rolls to desperate Norwegians. Sales at Swedish supermarkets on the border rose by as much as half in early May, according to one Norwegian retail group. Norwegians already spend some NKr9 billion ($1.3 billion) a year in Swedish shops, where meat, cheese and beer are all cheaper than at home.

The strike ended on May 24th, after the transport union backed down from an absurd demand that union members should be paid more than non-union members. But further disruption is on the way. Most industries have centralised wage negotiations every two years, and the season has just got under way. Nurses, teachers, cleaners, librarians and civil servants are all starting tricky wage negotiations that could easily lead to more strikes.

Public-sector workers are particularly anxious to win assurances that their generous pensions will be paid as promised. But, as elsewhere in Europe, an ageing Norway will struggle to honour these promises, despite its oil wealth and a bulging savings fund worth some NKr915 billion ($133 billion). A government commission of inquiry is looking for solutions. One obvious one is to ask people to spend more time working. But that is hardly popular. No wonder the unions consider that the spring negotiations are a good time to get their views across—before the summer holidays.

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Charlemagne

The tyranny of the majority

May 27th 2004
From The Economist print edition

Arguments over majority voting in the European Union

Get article background

FAIR-MINDEDNESS and a willingness to acknowledge both sides of the argument are grave defects in a columnist. So it is with extreme reluctance that Charlemagne has concluded that, when it comes to the most divisive issue left in the draft European Union constitution, both sides have a point. The dispute is about how far the EU should take decisions by majority vote (a related dispute on voting weights that upset Spain and Poland last December is moving to a deal based on some form of "double majority" of countries and populations). The discussion is urgent, since the aim is to finalise the constitution next month. As ever, a camp led by France and Germany on one side is pitted against one led by Britain on the other. The Franco-German duo argue that, now that the EU has 25 members, allowing individual countries to veto decisions is a recipe for paralysis. The British respond that certain subjects are so sensitive that individual countries must retain the right to say no. Both sides are right.

It sounds like an insoluble dilemma. But it need not be. The obvious answer would be to agree that all EU decisions should be taken by majority vote, but to define what falls under the control of Brussels tightly. The constitution-makers have flirted with a solution of this sort. The "Laeken declaration" of December 2001 that set up a constitutional convention promised that the distribution of power between the centre and the member countries would be re-examined from first principles. It raised the possibility that powers could flow in both directions: the EU might gain authority to act in some new areas, but other powers could be repatriated. But it did not happen. The draft constitution does not contain a single proposal for the EU to cede a policy area. The flow of powers is all towards Brussels, even if it is more of a trickle than a flood. The proposed expansion of the EU's powers may be modest compared with the federalists' wish-list, and countries retain a veto in over 40 policy areas, against some 153 provisions to be decided by majority vote. But significant new areas will move to majority vote under the draft constitution—decisions on corporate taxation, on EU foreign policy following a proposal by a new EU foreign minister, on some aspects of court procedures and the criminal law, and even on bits of social-security law.

The British government has declared that all such changes must be struck out of the constitutional text, or Britain will refuse to sign. These areas are so central to national politics, it argues, that no sovereign government can accept that its own voters should lose the right to control them. The federalist response to this is that the British are living in the past (the 19th century is often mentioned). In the modern world, nation-states are too puny to handle many of these challenges alone. The EU is proposing to act only on questions that have cross-border implications.

The trouble with this argument is that it is possible to find a cross-border angle to almost everything. Foreign policy—obviously. The environment—clearly. Social security in an EU where there is free movement of labour—probably. Even taxation meets the test. The draft constitution refers only to taxes that affect the operation of the EU's single market, such as corporate and sales tax. But there is no reason why this definition should not be extended even to personal taxation. Highly paid bankers often make decisions about where to live and do business partly for income-tax reasons—might that be a distortion of the single market? Identifying a cross-border element is the easy part. Balancing it against the democratic legitimacy and accountability of the nation-state is the real challenge.

Defenders of the constitution say that this is precisely what they have managed. The new areas for majority voting are pifflingly insignificant, they complain, precisely because national sensitivities have been taken into account. At times, efforts to satisfy all parties have tied the draft into logical knots. Thus European governments will decide a tax issue by majority vote only if they have first unanimously agreed that it relates to the single market or to tax evasion. How, groan the federalists, can Britain object to

this? Quite easily. The British suspicion is that, once you half-open the door to majority voting on such a sensitive issue as tax, there will be further federalist shoulder-charges until the door is hanging off its hinges. For evidence, consider the report of a panel set up by the European Commission and chaired by Dominique Strauss-Kahn, a former French finance minister, which argued this week for a big increase in the EU budget, to be financed by the first directly imposed EU tax. Mr Strauss-Kahn calls the constitution only “a first step”.

An inability to act

On one big point, however, the federalists have a very strong case. Demanding that the European Union act in certain fields and then giving all 25 member countries a right of veto is a recipe for paralysis, bad policy, or both. The EU's current inability to amend the stability and growth pact, which sets budget rules for the 12 euro-area countries, is a case in point. It is now clear that these rules do not work. More and more countries are brazenly breaching the budget-deficit ceilings of 3% of GDP. If a change could be decided by majority vote, the pact would be swiftly reformed. But because unanimity is required, nothing can be done. Indeed, the basic provisions of the pact are being incorporated unchanged into the constitution.

This kind of absurdity is likely to multiply once the constitution is in force—because the British will in the end get most of their red lines. The result will be a constitution that claims a power for the EU to act in almost every area of public policy, from tax to foreign policy to social security, but simultaneously makes it almost impossible to make sensible decisions in the many fields in which member countries retain a veto. Apparent power combined with actual immobility: it could be a dangerous cocktail for the EU's credibility.

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Divorce

Court in the act

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England's a bad place for rich people with wobbly marriages. It may get worse

HERR X was a rich man before he married his English wife, and when he moved to London with her some years later, he got a nasty shock. She filed for divorce—and whereas in Germany that means sharing out only the assets accumulated during the marriage, in England, everything is potentially up for grabs. Facing ruin, Herr X moved fast, apologising convincingly for his infidelity. His wife withdrew the divorce petition. The couple then moved back to Germany—where Herr X then filed for divorce again, but this time under rules that saved his fortune.

Globalised lifestyles create plenty of scope for this sort of regulatory arbitrage. Germany and most continental countries ring-fence pre-marital property. England usually tosses it all in the pot. English judges can wholly ignore pre-nuptial agreements; elsewhere they can be binding. In France and other Mediterranean countries fault plays a role: infidelity can mean losing out financially. But in northern European countries, conduct short of the mad or murderous is excluded. Judges in England now look very kindly on wives' needs, especially after long marriages during which their earning power may have been eroded. In most of Europe long-term maintenance is very rare; women are expected to work just like men.

London is already the worst jurisdiction in Europe for rich spouses (see table). It may soon overtake America's fiercest: New York. Currently the cases of two couples—one husband rich from football, the other from accountancy—are being heard jointly by the Court of Appeal. In both cases the wives are arguing that a share of the assets is not enough: they want a fair slice of their husbands' future income.

See you in court
A globetrotter's guide to divorce

Jurisdiction	England and Wales	New York	Germany	France
Pre-nuptial agreement	Still rare, though increasingly important	Increasingly common among older and richer couples, normally binding*	Common, normally binding	A legal requirement
Accrued assets	Judge's discretion	Judge's discretion, presumption of "equitable share"	50-50	Usually 50-50
Pre-marriage assets	Usually included	Excluded†	Excluded†	Usually excluded
Maintenance‡	Common, and often lifelong	If needed to maintain marital standard of living	Limited	Normally limited to eight years
Share of future earnings	Not yet	Based on contribution to marriage	No	No
Time and money	Slowish and costly	Quick and costly	Quick and cheap	Slow and cheap
Adultery and other misconduct	Usually ignored	Ignored§	Ignored§	Relevant
Friendliness rating**	• •	•	• • • •	• • •

*Except where fraud, duress or non-disclosure can be proved †Unless mingled or actively managed during marriage
‡Called alimony in some jurisdictions § Barring financial recklessness
**For a non-adulterous rich man hoping for a speedy exit from 10-year marriage concluded without pre-nuptual agreement
Source: *The Economist*

That would chime with American thinking. The wife who scrubs floors to put her man through law school deserves a share of his future legal earnings, argues Marjory Fields, a retired New York judge who is now a consultant with a London law firm. New York courts calculate the present value of a high-flying spouse's future earnings and add it to other assets similarly built up during the marriage. That total is

then split, either with a one-off payment or by instalments.

Many English lawyers support this, noting that capital and income are two sides of the same coin. It is “ludicrous”, according to John Cornwell, a top London divorce lawyer, that the law pays so little attention to future income. “You could find the assets are divided 50-50 but the disparity is huge because the wife will be living on investment income only and the husband is on £500,000 a year,” he says.

If the appeal court judges rule along those lines, it will complete England's journey to the top of the league table of generous (for the poorer partner) divorce locations. In the past, it was at the bottom: judges worked on the basis of the “reasonable needs” of the poorer half (in practice, usually the wife). That has already shifted, in a landmark case in October 2000, to the idea of an “equal division” of property—and now, maybe, of income too.

Discontented spouses in mobile marriages are quick to pick up these trends. As English judges became more wife-friendly, rich Americans stopped coming to London to dump their spouses. Women married to Arabs have started coming for just the same reason, notes Pauline Fowler, a partner in a specialist London firm. For most husbands, continental Europe will offer a much better deal than England. “If I have a French client living in London with his beautiful wife, I tell him ‘if you have the chance, file in France immediately',” says Véronique Chauveau, a Paris-based international lawyer. Louise Spitz, a London lawyer, has seen “a significant increase” in international clients since October 2000 and predicts a further rise in future.

The European Union has tried to tidy things up with a measure known as Brussels II, in force since 2001. This says that six months' residence in any signatory country is enough to start divorce proceedings there; once launched, they can't happen anywhere else. That sounds admirable, but the effects have been mixed. Expensive jurisdictional disputes are fewer. But there's a big incentive to be the first to go to law, penalising trust and patience in a troubled marriage. “It's awful because parties issue sooner than they want,” says Kerstin Beyer, a German lawyer at a specialist London firm.

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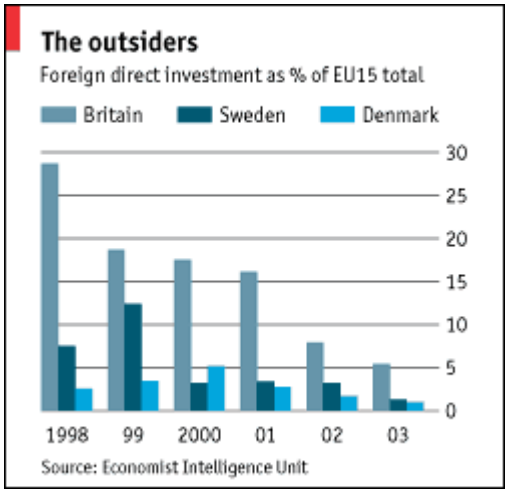
Investment

Foreign, redirected investment

May 27th 2004
From The Economist print edition

Britain's share of FDI to the European Union is falling. Is the euro to blame?



WHEN a British company invests in a new plant, it is a source of some satisfaction to the local MP whose constituency benefits. But if a foreign company opens a shiny new factory on these shores, it is a source of national pride and ministerial self-congratulation. Of all the enticing locations a footloose global capitalist might consider—from the Pearl River Delta to Northern Bohemia—they chose us!

It isn't just politicians who like foreign investment. Economists point out that foreign-owned plants tend to be more productive and their workers better paid. Their virtues may also leak into the British "air" as Alfred Marshall, a great 19th-century economist, put it.

But those fickle foreigners are choosing Britain less and less, it seems. The Economist Intelligence Unit (EIU), a sister company of *The Economist*, reports that inward investment to Britain, which peaked at almost $120 billion in 2000, amounted to just $14.5 billion in 2003. Britain's share of EU FDI has fallen every year since 1998: in 2003 its share was a paltry 5.4%.

Every year, that is, since the euro was born. So has monetary union already begun to reshape the geography of European production? The fall in the share going to Britain's partners-in-exile, Denmark and Sweden, suggests it may have. The EIU concludes that saying no to the euro will cost Britain one-third or more of its potential annual FDI flows. Other economists think it could cost Britain as much as half.

But other, cyclical, forces may be at work. Britain is particularly exposed to swings in the appetite to merge and acquire. Its market for corporate control is more open than that of many of its continental neighbours, as anyone who has recently tried to acquire the assets of a French national champion can readily attest. Britain thus benefited disporportionately from the rush of cross-border corporate marriages in the late 1990s, and may do so again, when the urge returns.

Mergers and acquisitions are not just more volatile than other forms of FDI; they are also less politically sensitive. Politicians might turn out to see the ribbon cut on a shiny new plant. But they rarely get so worked up about foreigners taking a 10% equity stake in a company that already exists. Barry Bright, of Ernst & Young, an accountancy firm, argues that "mergers are about the nature of the company being acquired. FDI is about the nature of the country being entered into." He finds that Britain attracted more investment projects than any other European country in 2003: 453, up from 370 in 2002.

But acquisitions should not be too quickly discounted, says Laza Kekic, an author of the EIU report. "Firms," he says, "are acquired for a reason"—because the foreign buyer can do a better job of running them. Like all forms of FDI, acquisitions are a conduit for foreign expertise. Without them, Britain must rely on a shallower managerial gene pool.

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Art market

The hottest thing in Britart

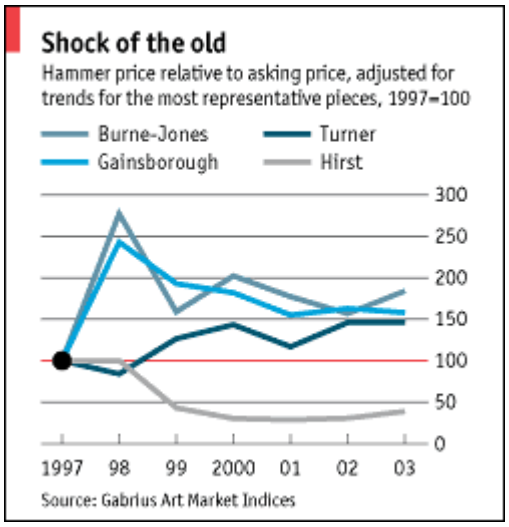
May 27th 2004
From The Economist print edition

Works by British conceptual artists go up in smoke

ON MAY 24th, 100-or-so works by ageing Young British Artists (YBAs) disappeared into the night sky above Leyton in east London. A fire gutted 32 industrial units and occupied more than 50 firemen, who no doubt wished the artists had worked with less flammable materials than formaldehyde and nylon. Work by most of the big names—Damien Hirst, Tracey Emin, Jake and Dinos Chapman—has probably gone.

Charles Saatchi, patron and publicist to the artists, is said to be upset, though probably not as upset as the companies who insured the pickled mammals, camping equipment and toy soldiers that are the stuff of conceptual art. Many of the artists have said how terrible it all is too. But the fire is so convenient for the YBAs that it is hard to know if they are bowing their heads in bereavement, or so that nobody can see them smirking.

In part this is because death on the pyre will save the works from becoming worth less as they rot. Robert Read of Hiscox, an insurance firm, says that items like Damien Hirst's shark in formaldehyde have a short life span, making them difficult to value. The insurance policies on these works will, he says, either value them at an agreed price based on their auction price, or at their current market value. Either way, the owners cash in on a depreciating asset.



The fire could also give the artists a much-needed shot of notoriety, increasing their value at auction. Indices compiled by Gabrius, a company that tracks the performance of art at auction, show that YBAs have recently performed less well in the salesrooms than some more traditional work (see chart).

Rodolf von Hofmannsthal, who runs the Dicksmith gallery in London, says artists also use their big pieces to attract attention to their work and thus sell smaller pieces. Whether the famous tent or cow actually exists is incidental.

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Crime

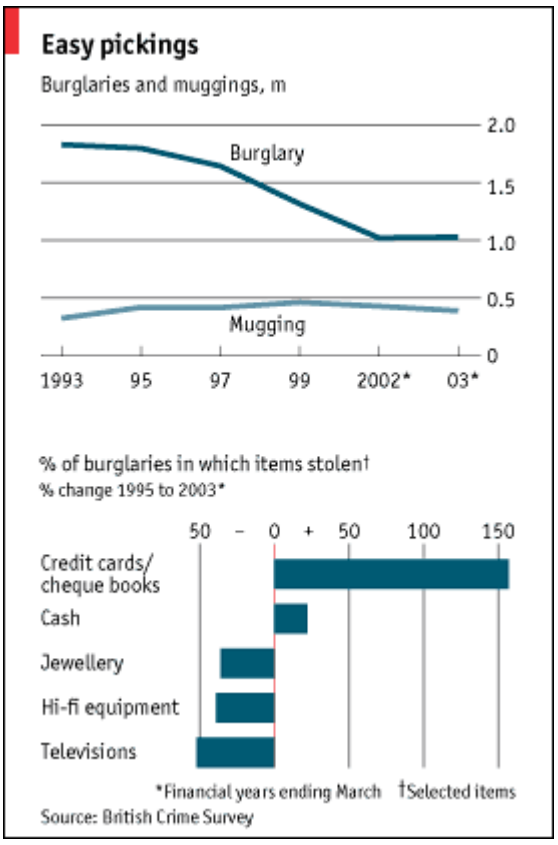
The decline of the English burglary

May 27th 2004
From The Economist print edition

How a once-fashionable crime has fallen from grace

Get article background

WHATEVER happened to burglary? In the late 1980s, it was as ubiquitous as baggy jeans. Everybody who was not being burgled seemed to be burgling, or otherwise supporting the industry by buying cheap videos, no questions asked. But the housebreaking fad is now in danger of becoming retro. Domestic break-ins have fallen by 45% in the past ten years, according to the British Crime Survey. The steepest decline has been in trend-setting London, where burglary is now as rare as it was in the era of lounge suits and Abba.



Burglary still has its adherents, but, like other followers of out-of-date fashions, they are an increasingly sorry-looking bunch. “Burglars are not nearly as well prepared as they used to be. Many don't even bring a bag to the job,” says John Kelly, head of crime at the Cleveland police force in north-eastern England.

Why the decline in numbers and skill? Improved security and low unemployment rates have something to do with it, although not as much as boosters claim. Burglar alarms are more widespread than a decade ago, but only a quarter of houses have them—and they tend not to be in the most vulnerable areas. As for growth in the legitimate job market, that does not appear to have drawn the criminal element away from mugging (see chart).

The more likely reasons for the decline of burglary have to do with changes in the criminal marketplace. In the past decade, the housebreaking trade has suffered two shocks—one to demand for its products,

the other to its labour supply.

The first problem concerns the kind of loot typically kept in houses. Video recorders, DVD players and hi-fis are now so cheap, in real terms, that they are barely worth nicking. Televisions are a better bet, but the most valuable ones are so large as to present practical difficulties. Last year, just one in ten successful thieves walked off with one—less than half the proportion that did so in 1995.

Favourite targets these days are small items that are readily turned into money. Credit cards, cheque books and mobile phones are all increasingly popular, as is cash itself (taken in 39% of all burglaries). These are, of course, the same things that people tend to carry around in the street, which is not a coincidence. In the past few years, burglary has become less a distinct business with its own specialist workforce and associated occupations (such as fencing), and more a proxy form of mugging favoured by the slow and timid.

That trend has also been pushed forward by changes in the criminal labour force. In the past ten years, police say, skilled burglars (who tend to travel widely and specialise in particular goods) have been largely replaced by casual operators. Stephen House, deputy assistant commissioner of the Metropolitan Police, explains that the specialist fences “professional” crooks rely on have increasingly been rumbled by paid informants. Intelligence-sharing has made their lives more difficult, too. These days, the imminent release from prison of a skilled burglar will be preceded by a flurry of alerts to watch out for a particular modus operandi.

The departure of skilled operators has left the burglary trade in the hands of desperate, drug-addicted young men. They rarely specialise in housebreaking, and, when they do, follow a quite different pattern, raiding poorly protected properties within walking distance of their homes. Such men are probably as numerous as a decade ago—according to Mr Kelly, indeed, they are more numerous. But they are committing fewer burglaries, in part because they simply aren't up to it.

Now that the police routinely test offenders for drugs, they are noticing that certain chemicals seem to be associated with certain types of crime. One Home Office study of 3,000 arrestees found that those pulled in for burglary and shoplifting were more likely to test positive for heroin than anyone else. Muggers and purse-snatchers, though, were most likely to be cocaine or crack users.

Given the effects of the drugs, such patterns are not surprising. As Steve Hassall, a detective chief inspector at Greater Manchester Police, puts it, a crack addict in need of a fix will be “climbing the walls” and hardly capable of planning a break-in. This has strong implications for criminal activity. As powder and crack cocaine overtake heroin as drugs of choice, burglary inevitably declines while street crime does not.

Thanks to years of epidemic rates, and the heinousness of the act itself, burglary has retained its status as the premier British folk crime. But the image is increasingly out of touch with reality. If you return home to find the window broken and the television gone, be aware: you are looking at a piece of history.

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European Parliament elections

Spoilers

May 27th 2004
From The Economist print edition

The damage that the UKIP could do to the Tories

Scattering a little stardust on Euroscepticism

THE government's abrupt about-face over holding a referendum on the European constitution may have denied the Tories their best tune in the run-up to next month's European Parliament elections, but it also appears to have had the unintended consequence of giving a big boost to the UK Independence Party.

A YouGov survey in the *Daily Telegraph* this week put UKIP, which advocates Britain's withdrawal from the European Union, at 14%, only four points behind the Liberal Democrats. When the strength of voting intention was factored in, the positions were reversed, with UKIP steaming into third place at 18%. The surge in support reflects the publicity the tiny party has received since the referendum decision was announced a few weeks ago.

Its previously-ignored leader, a former Conservative junior minister, Roger Knapman, who brandishes a well-thumbed copy of the draft constitution wherever he goes, has become a “must-have” on every popular news and current affairs show. The party has also managed to recruit a quasi-celebrity candidate in the form of Robert Kilroy-Silk, Britain's unconvincing answer to Oprah Winfrey until fired by the BBC for airing his anti-Arab prejudices. Joan Collins, a well-preserved actress, is also a supporter. Other UKIP luminaries are few and far between, although the party is proud to include on its list of candidates John Browne, a one-time Tory MP dumped by his local party following his suspension from the Commons for serially failing to declare business interests.

If UKIP were to do anything like as well in the vote on June 10th as the poll suggests, it would send shockwaves through all three main parties. Although the Lib Dems will do much better in the local government elections held on the same day, to be relegated into third place by a fringe outfit like UKIP would be a humiliation that would trigger more disquiet about Charles Kennedy's leadership. For the government, it would be a jolting reminder of how tough it will be to avoid a highly unwelcome “no” vote in the referendum.

But UKIP success on such a scale would confront the Tories with a horrible dilemma. Despite the government's efforts, the Conservative leader, Michael Howard, has managed to avoid being painted as a Euro-obsessive driven by a hidden agenda to quit the EU. Whatever the practical difficulties, the multi-speed Europe he espouses strikes many as quite sensible. The party's manifesto for the European Parliament elections sticks to the usual bromides about reforming the common agricultural policy and cutting red tape. The intention is not to frighten the horses.

But in trying to head off Labour's charges that he is a swivel-eyed extremist, Mr Howard has opened up a

space for UKIP, which has no such inhibitions. And with recent opinion polls indicating that more than a third of voters would like to leave the European Union, it is potentially quite a large space—much too large to ignore, according to unrepentant old Thatcherites, such as Lord Tebbit. Mr Howard would probably lose little sleep even if the UKIP doubled its European Parliament seats from the three they won in 1999. However, he would fear that the popular momentum and financial backing UKIP might gain from such a result would allow it to put up a much more effective fight at the general election.

Under the first-past-the-post system, UKIP won't send any MPs to Westminster and it will do well to get more than 3% of the vote—twice what it achieved in 2001. But a strong UKIP showing could scupper the chances of Tory candidates in a few crucial marginal constituencies. In other words, in a close race, Mr Knapman could do for Mr Howard what Ralph Nader did for Al Gore four years ago.

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Obesity

If present trends continue

May 27th 2004
From The Economist print edition

Fatness is a problem, but hysteria is not the solution

FEW now doubt that obesity is a problem. Britons are fatter than they used to be, fat makes you unhealthy, ill-health is expensive. But reports lamenting the size of the problem and demanding government action are hard to hear above the noise of other reports lamenting the size of the problem and demanding government action.

The temptation is to shout very loudly; and it is one that the House of Commons Health Select Committee has not tried to resist in the report on obesity it published this week. “The devastating consequences of the epidemic of obesity are likely to have a profound impact over the next century. Obesity will soon supersede tobacco as the greatest cause of premature death in this country. It is staggering to realise that on present trends half of all children in England in 2020 could be obese,” says the committee's chairman, David Hinchliffe.

Indeed they could; but on present trends, the oil price could be $80 a barrel before the end of next year. Only we know it will not be, just as we know that Britons will not, in fact, go on getting fatter until they pop. The only certainty about present trends is that they won't last, and doom-mongers serve their cause badly by drawing straight lines on graphs assuming that they will.

What's more, there are signs that the trend may be peaking in rich countries. Food companies peddling fattening grub are suffering. McDonald's has introduced salads. Kraft has brought out a low-carb range. Krispy Kreme, producer of the world's most delectable doughnuts, has announced a first-quarter loss of $24m, blaming dieters. The average weight of Britons and Americans fell in the most recent recorded year. That may be a blip, but it may be a trend. And if present trends continue...

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Hotels

They're back

May 27th 2004
From The Economist print edition

Overseas visitors are flowing in to fill London's hotels

THE hotel recession is over. Statistics put out in early May showing a sharp rise in the numbers of people entering Britain from abroad suggested it would be. Now new figures from Britain's two biggest hotel groups confirm that indeed it is—especially in London, the first destination of most foreign visitors.

The growth in tourist numbers has been strong, and it is accelerating. Though they included the Iraq war, the 12 months to March 31st brought 25.3m arrivals in Britain, a figure not seen since prosperous 1999-2000. The big rise came in the latest quarter, January-March this year: 5.5m, 11% up on the 4.9m of that period last year, let alone the 4.6m of 2002, when Americans were shivering in the aftermath of the September 11th attack. Now the Americans are back in force: 830,000 of them in January-March, 10% more than last year, despite the weakness of the dollar.

The boom has brought smiles for Britain's long-gloomy hoteliers. Figures just out from Watford-based Hilton International, owner of that brand name outside North America, show the effect. It has 75 hotels in Britain. Its provincial ones were not much hurt by the twin towers, Iraq or China's SARS scare, and so have no great recovery to proclaim. But Hilton's 16 Greater London hotels are another story. They were doing dismally a year ago. No longer: as against a year earlier, their revenue per available room, a key measure for the trade, was up 5% this January, 8% in February, 22% in March, 35% in April. So far, that is due mainly to higher occupancy; higher room-rates are still to come. The group's worldwide profit was a modest £171m pre-tax last year; brokers' estimates for this one run around £325m.

More figures came on May 27th, from Britain's second-biggest quoted group, InterContinental Hotels—until recently, Six Continents, better known to oldies as plain Bass. It reported revenue per room in London 38% up, albeit from the miserable base of a year before.

American-owned Marriott tells the same story, though it puts no figures on it. Counting in franchisees and the like, it has over 70 British hotels. Its provincial hotels, like Hilton's or those of lesser groups, such as Jarvis, were never too hard-hit by world events, though foot-and-mouth disease hurt them in 2001. But now Marriott says that, for the first time in years, its London hotels are “showing strength” too.

The industry's brighter prospects have also been reflected in enthusiastic bidding for the smaller groups. London-oriented Thistle was hit hard last year: a Malaysian tycoon seized the chance to bid for it, and won. Macdonald Hotels' 75 properties were bought out by its chief executive.

The fate of another bid confirms the trend. Guinness Peat Group (GPG), an institutional shareholder, is now after 25% of De Vere, which runs gyms and hotels (among them, London's Cavendish, a near neighbour of *The Economist* which, in its 1920s form, with its complaisant proprietress, Rosa Lewis, inspired some of the loucher scenes in Evelyn Waugh's “Vile Bodies”). GPG says the stockmarket undervalues the upmarket hotels, but rival hoteliers would pay well for them, so the firm should sell them and share the cash. As the biggest shareholder, it could maybe get its way. But nearly all other holders rejected its first bid, in March, and will probably reject a slightly higher one sent out this week: they think De Vere is worth more as a hotel company with real prospects than as an uncertain pot of cash now.

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Immigration

This year's Prada

May 27th 2004
From The Economist print edition

How to sell immigrants to the British

THE tools of the marketing business are now standard-issue kit for any government. Despite a few glitches—Alastair Campbell's well-publicised determination to “fuck” Andrew Gilligan, a former press officer's e-mail welcoming September 11th 2001 as “a good day to bury bad news”—the current lot are reckoned to be rather adept at wielding them. So the publication this week by the *Sunday Times* of a leaked document describing the government's “marketing and media strategy” to sell immigrants to the public should not occasion too much surprise.

The government already flogs voters some far less promising propositions—war and taxes, for instance—so immigrants should be a relatively easy sell. Yet there is considerable consumer resistance. According to the tabloids, the market is flooded with immigrants, the quality low and the price the nation is paying for their presence too high. In these circumstances, an active marketing strategy is clearly appropriate.

The leaked document takes on board some basic marketing techniques. It commits the government to a “holistic strategy” (laws to keep undesirable ones out, permits to let desirable ones in), explains the “migration narrative” (everything is under control) and promises “branded communication and tool kits” (pieces of paper for PR people to parrot from). Yet it fails to take advantage of the full range of marketing concepts available. Fortunately, Britain's brightest new marketing consultancy, FlogUrite (a wholly-owned subsidiary of *The Economist*) has a two-stage strategy for rebranding immigrants it is happy to share with the government.

First, immigrants need to be shifted upmarket. Currently, they are associated with poverty, which is bad for the brand. Voters need to be persuaded that, while immigrants may be poor, countries that have them are rich. America has lots of immigrants; Somalia has few. Immigrants should therefore be worn as a badge of status, like a Prada handbag.

Second, product lines need to be differentiated. Immigrants are viewed as a bulk commodity, and nobody values commodities. Different value propositions need to be marketed to different groups. A budget line—cheap eastern European domestic labour—could be targeted at housewives, as a substitute for the servants their grandmothers would have recruited from the indigenous working class. Costlier lines, such as Indian software engineers, could be targeted at troubled businessmen seeking to fill vacancies. There are plenty of niche markets, too: ugly people who have failed to find love locally should be made aware that their chances increase as numbers of hard-up immigrants rise.

In the unlikely event that this innovative campaign fails to shift product, the government might revert to a tried-and-tested technique, Buy One, Get One Free: with every Polish builder comes a free Romanian Gypsy.

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Bagehot

What Michael did wrong

May 27th 2004
From The Economist print edition

Michael Howard gets stick for his opportunism, but that isn't what's holding the Tories back

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THE Conservative leader is more sensitive than he appears. Michael Howard hates the label of opportunism that the government has tried, with growing success, to pin on him. He was genuinely wounded by the wigging he received from several rather grand Tory commentators for his decision last week to attack Tony Blair for a lack of candour over his dealings with President Bush and timidity in exerting British influence.

Mr Howard's opportunism is sometimes a little too naked for his own good, but not in this instance. Entirely reasonably, the Tory leader has argued that supporting the war does not require him to approve of everything that has happened since it started. Mr Howard has done nothing worse than reflect concerns that are widely held. That is the opposition leader's job. Last weekend even the previous British ambassador in Washington, Sir Christopher Meyer, said he was frustrated by Mr Blair's reluctance to use his leverage with the White House to the full. It is therefore hardly surprising if Mr Howard thinks he has hit upon something important.

Mr Blair seems to agree. The prime minister's readiness to draw attention to differences with the Americans over the degree of political control Iraq's new interim government will exercise over British and American forces was a tacit admission that Mr Howard had a point. Although those differences are more nuanced than some newspapers and Labour MPs would like to think, Mr Blair was nonetheless signalling his determination to push his coalition ally as far as possible in making a reality of Iraqi sovereignty after June 30th. Mr Howard could have gone on the offensive again, to accuse the prime minister of sowing confusion. But he chose not to, sensibly preferring to endorse the prime minister's efforts.

Finding the right tone of voice with which to scrutinise the government's Iraq policy has not proved easy for Mr Howard. He has got it wrong often enough. It was low politics to pull out of the Butler committee's inquiry into the intelligence failures leading up to the war, and his outrage over David Kelly's suicide always sounded synthetic. It was probably also a mistake to air his most recent critique in the form of an article in the *Independent*, a stridently anti-war newspaper that was bound to amplify whatever he said. And it is disingenuous of him to compare Margaret Thatcher's occasional spats with Ronald Reagan with Mr Blair's unwillingness to risk falling out with Mr Bush: Mrs Thatcher and Mr Reagan were never coalition partners in a hot war. That said, for as long as Iraq remains the dominant issue in British politics, Mr Howard has a right and a duty to hold the prime minister to account.

There are also, it must be admitted, more self-serving reasons why Mr Howard should find Iraq a convenient topic. For all the talk of a Tory revival under his leadership, there is little to show for it other than the sense of relief among MPs and activists that the party is led by someone who looks and sounds as if he might be a competent prime minister. However, even that has begun to wear a little thin lately as opinion polls have failed to reflect the awful battering the government has taken in the last six months. Although the Conservatives have recently nosed ahead of Labour in a couple of polls and the party is likely to chalk up some big wins in next month's local government and European Parliament elections, there is no evidence of the kind of momentum needed to challenge the government in a general election.

On the big themes other than Iraq, the Tories have made little impact. In part, that is because worries about oil prices and a house-market bust remain no more than distant, wispy clouds on the far horizon. But it is also because, with the large exception of himself, Mr Howard has a woefully under-performing

front bench. Indeed, in almost every instance, Mr Howard's supposedly streamlined, slimmed-down shadow cabinet is less impressive than his predecessor's.

Dark in the shadows

Oliver Letwin, a brilliant former shadow home secretary and now the successor to Mr Howard as shadow chancellor, has dashed the high hopes of his many admirers (including Bagehot). Mr Letwin's charm and intelligence have been overwhelmed by the intellectual thuggery of Gordon Brown, the chancellor. The rapier is no match for the tank. Caught between his party's visceral yearning for lower taxes and Labour's relentless propaganda about massive Tory spending cuts, Mr Letwin cuts a forlorn figure, often bested even by the Liberal Democrats' capable, but hardly charismatic, Vincent Cable. With Theresa May, who has responsibility for transport and the environment, the problem is simply one of invisibility.

If Tim Yeo had similarly disappeared from view, he might have done his party a favour. Unfortunately, because Mr Yeo fronts for his party on both health and education, he all too frequently pops up in front of the television cameras. People close to Mr Yeo say he is clever and jolly, but his overbearing manner, slightly seedy appearance and evident lack of interest in both his subjects disastrously undermine the Tories' attempts to be taken seriously. Meanwhile, two of the party's more talented players, health spokesman Andrew Lansley and transport spokesman Damian Green, toil in obscurity outside the shadow cabinet. Apart from the energetic party co-chairman, Liam Fox, only David Davis, the shadow home secretary, has had any success: he exposed a shambles in the immigration bureaucracy and claimed a ministerial scalp.

For all his vaunted professionalism, Mr Howard has made a hash of key appointments, while forcing his senior colleagues to operate within a structure that does not work. It is not Mr Howard's opportunism that is holding the Tories back, but his rotten management.

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Dubai

Arabia's field of dreams

May 27th 2004 | DUBAI CITY
From The Economist print edition

One of the world's most successful business ventures is a small city state that learned lessons from Singapore and Hong Kong

A TROPICAL sun slides into the sea behind the palm trees and white sand of Jumeirah beach. As darkness falls, the lights of offshore construction machinery emerge a few hundred metres offshore.

Elsewhere in the Arabian Gulf, this would indicate round-the-clock work on offshore oilrigs. Dubai has some oil and gas, but they contribute barely 6% of its economic output and are due to run out in about ten years. Contrast that with a fellow member of the seven-state United Arab Emirates (UAE) federation, Abu Dhabi, which sits on the world's fourth-largest oilfield. Dubai has been wisely using its oil and gas income over the years to invest in a different sort of future, replacing hydrocarbons with people as it has expanded to be the tourism and business hub of a region where 1.5 billion people are within two hours' flying time.

Posh'n'Becks woz 'ere

The machines off Jumeirah beach are laying the foundations for houses on one of the world's largest man-made islands, designed in the shape of a palm tree (pictured). They are for footballers' wives and other rich sun-seekers. England's soccer stars, led by David Beckham, were among the early buyers when the 2,000 villas sold out in a week last year. (Even unfinished properties are now trading at a huge premium in a lively secondary market.) Such man-made islands are quadrupling Dubai's tiny 40km (25 mile) coastline.

Thirty years ago there was nothing in Dubai but a creek, a sheikh's palace and a dodgy reputation as the smuggling capital of the Arabian Gulf. The traditional Arab *dhows* remain, and there were recent echoes of its smuggling past when it emerged, amid rumours of terrorist money-laundering, that much of Pakistan's illegal trade in nuclear materials passed through Dubai.

But in most other respects, the sheikhdom has been magnificently transformed, and is now a beacon for legitimate, non-oil business in the Arab world—where shining examples of capitalism are rare indeed. Dubai is run like a family business by a benign autocrat, Crown Prince Sheikh Muhammad bin Rashid al-Maktoum, whose interventions in the economy have judiciously sought to work with market forces, not

against them.

Today Dubai boasts 272 hotels with 30,000 rooms, 30 shopping malls and almost 5m foreign visitors a year. Its airport's capacity is being tripled to 60m passengers a year. In the desert, Dubailand is being built—a $19-billion theme park twice the size of Disneyworld in Florida.

The motto of this tiny sheikhdom, for long the poor relation of Abu Dhabi an hour or so's drive up the Gulf, should be “if we build it they will come”. Oil, discovered in 1966, provided cash to fund modernisation projects such as the world's largest man-made harbour at Jebel Ali. This put Dubai on the map as the cargo hub of the Middle East. Many of the 2,600 companies in the tax-free zone now use it as a staging post for trade with China, which has been particularly vibrant lately.

Emirates Airline has played a crucial part in Dubai's development. From the start, Dubai has run an open-skies approach, welcoming any foreign airline that wants to fly in competition with Emirates—even though its chairman is another ruling-family member, Sheikh Ahmed bin Saeed al-Maktoum.

Now 100 airlines link Dubai to 145 destinations. Dubai even has an open-skies deal with America: next month Emirates starts a non-stop service to New York, to be followed by flights to San Francisco and Chicago, allowing Americans access to countries in the Gulf and in Africa without having to change flights in Europe.

Emirates has thrived on competition, making a profit in all but one year since it was founded in 1985. Last year, despite anxiety over terrorism and nearby war, the airline's net profit climbed by 73% to Dhs1.6 billion ($429m), as passengers increased by 23%. So consistent has growth been that Sheikh Ahmed and Maurice Flanagan, long the driving force of the airline, had no qualms about placing the world's biggest aircraft orders last year, for Airbus and Boeing planes worth $19 billion, including no fewer than 45 of Airbus's double-decker A380 super-jumbos.

The airline and Dubai have helped each other grow. This started in the early 1990s when the airline persuaded hotels to offer cheap rates for short stays. Instead of just being somewhere to change planes, Dubai became a place where long-haul business travellers started to take a break en route, say, from Europe to Australia.

As the city-state built huge tax-free shopping malls and launched sporting events, notably the Desert Classic golf tournament and the Dubai World Cup horse race, so it became a holiday destination, offering attractions such as desert safaris and *dhow* cruises. It has had to overcome considerable scepticism. Anita Mehra, marketing boss of Dubai airport, recalls how each new development, from the Jebel Ali container port to the region's largest dry dock to duty-free zones and the rash of beach hotels, was forecast to be a white elephant—but became a cash cow.

Dubai is still helped by a tidy income from its own oil exports, which means it does not need to collect taxes. More importantly, it is helped by the poor performance of its neighbours. It has sucked cash and talent out of Beirut, Baghdad and Kabul, but also from such traditionally unattractive business locations as Saudi Arabia, Kuwait, Egypt, Pakistan and India.

Indeed, especially by Arab standards, Dubai is remarkably open to foreigners. Of its 1.5m people, over 80% are expatriates. In the business world, Brits, Indians, Iranians and Lebanese are prominent, while for the grunt work of building artificial islands there are plenty of job-hungry Indians and Pakistanis from across the ocean. Dubai's easy-going style—alcohol is readily available; foreigners can even own freehold property—has made it such a positive place to live and work that success feeds on itself. In that sense, it has much in common with two other vibrant city states, Singapore and Hong Kong.

Dubai's rulers helped bring about this happy condition by consistently working with the market. “Our job is to open the door for the private sector,” says Mohammed Ali Alabbar, head of the Dubai economic development board and a former investment banker. He also runs Emaar, a property developer that is building Burj Dubai, an office block that will be the tallest building in the world when completed in a few years. Its top floors will house a hotel joint-venture with Giorgio Armani.

In Dubai's free-trade zones, unusually, no local partner is required. These zones are now evolving to attract the service sector, by setting up developments to house clusters of companies specialising in a similar activity. Thus, Internet City houses regional offices of the likes of Microsoft, Dell, Siemens, HP, Oracle and IBM. Media City is home to the regional bureaus of several TV stations. A planned Knowledge Village may attract foreign colleges.

Most of the capital for these developments has come from rich investors in the Gulf and Saudi Arabia. Building on that base, Dubai intends to establish itself as the leading capital market for its region. The Dubai International Financial Centre is now taking shape, with a new city of skyscrapers rather like London's Canary Wharf. It already has the world's leading investment banks knocking on its door.

Trying to set up a modern financial centre in a place famous for its past tolerance of money-laundering might seem a tall order. “Given its dodgy reputation, it might have been easier to start the financial centre with a clean sheet of paper,” says one Dubai insider. The answer to that has been, once again, to import foreign expertise to drive change, this time regulators from Europe led by Philip Thorpe, a former managing director at Britain's Financial Services Authority. New laws have been passed to ensure financial transparency.

If it succeeds in this latest venture—and its record suggests it will—Dubai will deal another blow to the critics who harp on about its shady past rather than its modern incarnation as a thriving tourist resort and increasingly important business hub.

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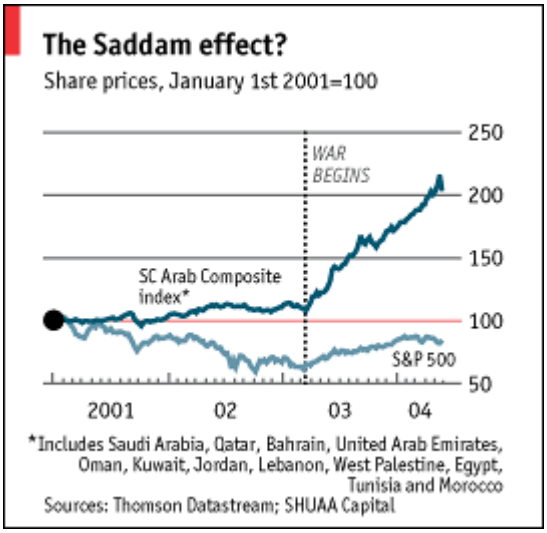
Business in the Middle East

Soukcess

May 27th 2004
From The Economist print edition

Arab firms are enjoying a boom



WHILE the world worries about insurrection in Iraq and unrest in Palestine, an uprising of a different sort is bringing joy to executives and investors in the Middle East. Over the past year or so, especially since the removal of Saddam Hussein, stockmarkets across the region have soared. The SC Arab Composite Index, covering 12 markets in the region, is up by over 80% since March 2003, says SHUAA Capital, an investment bank in Dubai.

High oil prices have made the pockets of Arab investors fuller than ever. And they seem more willing than before to invest locally. The unpleasant political headlines have masked a sharp improvement in business conditions in many industries in much of the region. And at the same time, says Hassan Heikal of EFG-Hermes, an Egyptian investment bank, Arab money, once heavily invested in America, has been flowing home since the dotcom bubble burst and American interest rates moved to very low levels. The attacks of September 11th have been a factor as well, prompting fears that Arab money might be less safe and, given visa difficulties, less readily accessible in America.

Arab investors are far less rattled by political risks in the region than are foreigners, says Matthew Eyre of Blakeney Management, an investment firm. It only took the fall of Saddam—once the biggest source of potential instability in the Gulf—to catalyse a share-price boom, he says.

The stockmarket winners highlight that Arab business is no longer just about oil—and not just because most oil firms are state-owned. Telecoms firms are booming as mobile telephony spreads across the region—not least Orascom Telecom, an Egyptian firm, and Saudi Telecom, which floated 20% of its shares last year in a $2.7 billion initial public offering (IPO). Oriental Weavers, another Egyptian firm, this week reported a 19% rise in annual profits, its carpet exports boosted by last year's devaluation of the Egyptian currency.

Reconstruction work in Iraq has been slower than expected, but still good business for some Arab firms. For example, Public Warehousing, a logistics firm in Kuwait, is benefiting from contracts with the American military. A regional building boom has done wonders for firms such as Orascom Construction, sister to the telecoms firm, which sells throughout the Middle East. “In this market, cement companies have no ceiling,” says Walid Shihabi, head of research at SHUAA Capital.

Not surprisingly, many other firms are considering an IPO, especially in Saudi Arabia, which already accounts for roughly half of the region's total market capitalisation. This week, the Saudi cabinet approved plans to sell most of the government's stake in the country's main insurer, and some of its shares in Maaden, a state-owned mining firm. New telecoms companies will have to list on the Saudi exchange should they win mobile-phone contracts to be awarded soon. But the biggest fillip, says Colin Craig of MerchantBridge, an investment bank, will be implementation of a new Saudi capital market law that will make listing easier.

Although share prices have cooled a bit in recent weeks, growth is widely expected to resume after brief profit-taking. For the time being, at least, probably only something dramatic—political upheaval in Saudi Arabia, say, or plunging oil prices or a real-estate bust in Dubai—can cloud the sunny disposition of Arab

business.

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Call centres

Now hiring

May 27th 2004 | HONG KONG, LONDON AND NEW YORK
From The Economist print edition

The real jobs crisis in the call-centre industries of America and Britain

WHATEVER Americans think about their companies using call-centres in India to provide customer services, most would probably agree that such “offshoring” costs American jobs. Yet the evidence for this has never been strong. It is easy to find individual firms that are laying off American workers and hiring abroad. But overall domestic call-centre employment seems to have held steady recently, at nearly 3m. In fact, the problem now emerging in America—as well as in Britain, where offshoring has also become controversial—is that it is getting hard to fill a growing number of call-centre jobs at home.

According to Datamonitor, a research firm, American call-centres employed 2.86m workers at the end of 2003. Though foreigners and voice-recognition-based computer programs compete with this labour pool, Datamonitor thinks that, over the next five years, American call-centre employment should nevertheless rise, albeit gently, to 2.94m. Driving this, says Mark Best of Datamonitor, is a growing recognition by American firms that the after-sales service and technical support that call-centres provide is an important way for the firms to hang on to existing customers and attract new ones. Underpinning this trend is a proliferation of new technologies built around better knowledge of customers. Smart firms are learning how to handle customers in ever smarter ways—creating demand for skilled workers to do this crucial job properly.

Another surprising source of demand is Asia, where firms are increasingly outsourcing IT and back-office work to high-tech American firms. In the first quarter of 2004, 13 big contracts valued at $3.2 billion were signed by firms in the Asia-Pacific region, including several Indian and Chinese ones—as much as in the whole of last year, according to TPI, a consultancy.

While only some of this work goes directly to creating jobs in America—after all, the winners are global firms such as IBM and Motorola—Mary Lamb, Motorola's head of communications in Asia, says that “absolutely our business in China and elsewhere in Asia creates jobs in America.”

As evidence, consider ClientLogic, a firm founded five years ago to specialise in handling call-centre work for other companies. ClientLogic has since grown to employ about 8,000 American call-centre workers. It has call-centres in 15 American towns and cities, which are beginning to get very busy. By the end of July, the firm expects that it will will need to start building new call-centres to handle new business coming both from existing customers and, it hopes, new ones. It is now advertising to hire an extra 1,100 call-centre employees in Las Vegas for an expanding contract it has with DirecTV, an American satellite-TV firm. Over the next few weeks, it also expects to sign contracts with new customers that may generate several hundred domestic call-centre jobs.

ClientLogic says there are many reasons why American firms might prefer hiring American call-centre workers to foreign ones. Americans and Indians use English differently. Indian call-centre workers go through language training—which can include watching “Friends”. But miscommunication remains a risk.

And, as a rule, says ClientLogic, American firms need to outsource at least 200 jobs abroad to make it pay. New customers, it says, prefer to outsource call-centre work first to American centres. Only the experienced dip their toes in Bangalore. Owners of upmarket brands, meanwhile, often prefer to associate with more expensive, American-based customer care.

The story is similar in Britain. According to a study published on May 25th by Intervoice, an American technology firm that is pushing voice-recognition-based software as an alternative to hiring humans, three-quarters of the 92 British call-centre managers the firm interviewed had a “negative perception” of the service quality offered by offshore call-centres. More than half of them said that they would never

use offshore call-centres.

In America, ClientLogic's real challenge is to find the right people to fill its new jobs. Because it attracts so many immigrants, Las Vegas remains a good place to hire. But labour markets around its other centres are tight, so ClientLogic will have to find other spots to build new centres, if it can.

ClientLogic's challenges are shared by the entire domestic industry, says Mr Best of Datamonitor. America's call-centre industry is running close to capacity, he says, and is struggling to meet growing demand. One big problem is that firms have tended to view call-centre staff as poorly skilled and easily replaceable. Mr Best says that employee turnover rates in the industry are now “upwards of 90%”. They are almost as high in Britain's call-centres.

Entry-level wages are $8-9 per hour in American call-centres. At ClientLogic, they rise to $20 for the most highly skilled employees. That may point to the industry's future in America, Britain and other rich countries. Lower-skilled, low-wage jobs will continue to be replaced by computers and foreign workers abroad. Call-centre employers wanting to expand payrolls at home, meanwhile, will just have to reward their employees more generously.

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The newspaper business

Tabloiditis

May 27th 2004
From The Economist print edition

Everywhere, broadsheets are shrinking

TABLOID newspapers in many countries are full of topless women, celebrity gossip and xenophobia. But they also boast another attraction: women and younger people find their smaller pages easier to manage, especially on public transport. Broadsheets that usually look down on tabloids are now rushing to downsize. In Britain, both the *Independent* and the *Times* have launched small editions, and the *Telegraph* has a dummy waiting in the wings. This week, Axel Springer, a German publisher, launched a trial run of *Welt Kompakt*, a tabloid version of *Die Welt*.

The reason? Broadsheets are mostly seeing their circulation slowly dwindle as older readers die and young people choose other sources for news and entertainment. They are also facing tough new competition from free commuter tabloids such as those published by Metro International, a Swedish firm. The trend is not entirely new. Spain has no broadsheets left at all, and in Italy Monrif Group switched its three leading papers, in Milan, Florence and Bologna, to tabloid format in 2001.

AP

The end of Die Welt as we know it?

At Britain's *Independent*, total circulation has risen by about 15% from last year thanks to its small edition. This month it dropped its broadsheet edition altogether. As many as 30 papers from around the world are thinking about doing something similar, according to Jim Chisholm at the World Association of Newspapers. The *Independent's* London offices have become a place of pilgrimage for newspaper bosses seeking ways to hold on to readers, he says—Malaysia's New Straits Times Press is one of many firms that have visited.

Can the answer to the woes of the broadsheets really be so simple? Though many readers prefer it, the tabloid format brings its own problems, one of which is that advertisers refuse to pay as much for the same fraction of space. It requires a big rise in circulation to offset that drop in ad revenue, and few popular broadsheet papers are likely to get the same boost as the *Independent,* which has a relatively small and young readership. Those with lots of older male readers will risk losing them if they go tabloid—these people tend to object the most. For that reason the *Times* has had to continue to publish its big edition, and thus has higher costs than if it could opt for one or the other.

Some broadsheet publishers are trying a more ambitious strategy: instead of replicas, or replacements, they are creating tabloids with fresh editorial content—not skimpily dressed celebrities, but articles designed to appeal to younger readers. Axel Springer's *Welt Kompakt*, for instance, is a condensed version of *Die Welt*, not an exact copy. It says it will continue to sell the broadsheet. The *Chicago Tribune* and the *Chicago Sun-Times* have each launched new tabloids aimed at the young. When the *Svenska Dagbladet*, a quality Swedish paper, went tabloid in 2000, it moved slightly downmarket and aimed itself more at city dwellers, says Lars Ryding, its foreign editor. As a result, he says, circulation in Stockholm rose by a quarter.

Tabloid proprietors are less than thrilled about quality papers aping their size. Richard Desmond, owner of Britain's Express Newspapers, argues that there is value for readers in keeping a clear distinction between the two. Still, as more serious papers shrink, being bigger may become more of a unique selling point. Might tabloids eventually fight back—by going broadsheet?

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Business in Ukraine

Steel crazy

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From The Economist print edition

Ukraine gives foreigners the finger

WHY are the world's two biggest steelmakers, plus a host of smaller ones, still interested in bidding for Ukraine's Kryvorizhstal? The state-owned firm produces a hefty 20% of the country's steel output, making it a good entry point into one of the world's hitherto-protected steel industries; but the auction on June 11th, when a 93% stake will be offered at a starting price of 3.8 billion hryvnyas ($714m), is rigged so blatantly as to be a joke.

Among the qualifying conditions announced earlier this month is the bizarrely precise one that any bidder must have produced at least 1m tonnes of coke and 2m tonnes of rolled steel in Ukraine for the past three years, two of them profitably. That rules out the foreign firms that long ago showed an interest—the world leader, Arcelor; the number two, LNM; US Steel; Russia's Severstal; and India's Tata Steel, which has said it would pay $1 billion for Kryvorizhstal. But it also rules out most Ukrainian bidders. And by giving them only a month to submit tenders, the government made the necessary due diligence, as well as any bid-qualifying tie-up by a foreign firm with a Ukrainian partner, virtually impossible.

The auction seems designed to favour a consortium formed by two Ukrainian oligarchs, Rinat Akhmetov and Viktor Pinchuk. The latter just happens to be the son-in-law of the president, Leonid Kuchma. “Ukraine doesn't seem to care at all about how it's perceived,” says Rob Edwards at Renaissance Capital, a Moscow investment bank. “For many people, Ukraine is still off the track as an investment destination.”

Such tactics, typical in former Soviet countries, usually deter foreigners from even bidding. But the Kryvorizhstal sale is both unusually big and unusually brazen. That has strengthened foreign resolve. Severstal and Arcelor said in April that they would join forces on the bid, which would let them attack through the courts in both Europe and America, where Severstal has a subsidiary; the Russian firm says that the tender contradicts investment agreements that Ukraine has with both Russia and America. LNM and US Steel, which already have several central and eastern European steel mills, this week announced that they will mount a joint bid too, while not sounding terribly optimistic.

Such pressure, and protests from Ukraine's divided but boisterous opposition—last week even the parliament's speaker, Volodymyr Lytvyn, one of Mr Kuchma's protégés, added his voice—may shame the government into delaying the auction. But even if it does there will still be profit to be made from rigging privatisations: another 312 of them are slated for this year alone.

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Helicopters

Hovering higher

May 27th 2004
From The Economist print edition

Finmeccanica's plans to fly high in America get off the ground

AP

A president's best friend

WHEN Pierfrancesco Guarguaglini took over as boss of Finmeccanica two years ago, Italy's biggest defence group—in which the Italian state has a 32% stake—was a hopeless jumble of assets. So he set about beefing up the firm's military side while cutting the number of non-core businesses and joint-ventures. On May 26th, another big step in this direction was announced, with Finmeccanica taking full control of AgustaWestland, a helicopter joint-venture which it had set up in 2001 with GKN, a British defence group. Mr Guarguaglini is now determined to become the world's top helicopter-maker.

The speed with which the deal was completed took rivals by surprise. EADS, a Franco-German aerospace and defence group that owns Eurocopter, its big European rival, reportedly tried to scupper the deal at the last minute. GKN is keen to get out of helicopters in order to concentrate on automotive and aerospace equipment. Finmeccanica can easily finance the *euro*1.5 billion ($1.8 billion) purchase of GKN's 50% stake by selling about half of its 17% stake in STMicroelectronics, a Geneva-based microchip-maker.

The price is high, but helicopters can be a relatively lucrative niche in the tricky defence market. Last year, AgustaWestland's 10.6% profit margin was higher than the average of Finmeccanica businesses. The firm already has its order book full for the next two and a half years. AgustaWestland and Eurocopter were neck and neck in the helicopter business last year with sales of *euro*2.6 billion each, ahead even of America's Sikorsky (a subsidiary of United Technologies), Textron's Bell and Boeing, the three other big players in the market. Analysts predict that total civilian and military helicopter sales, $12 billion last year, will double by the end of the decade.

To turn AgustaWestland into the market leader, Mr Guarguaglini must sell more helicopters in America. “Any firm with global ambitions has to be strong in America,” says Richard Holloway, a consultant to Finmeccanica. But as most countries like to give defence orders to home-grown firms, the Italian firm has to bolster its American credentials. It has formed a consortium with Bell and Lockheed, another American defence contractor, to pitch for the renewal of the American president's helicopter fleet. Finmeccanica is offering an American version of its flagship helicopter, the EH101. A team led by Sikorsky is bidding too. The winner, perhaps announced as soon as November, would be well placed to pitch for the 200 other helicopters which America intends to buy for its military over the next few years.

If it gets the contract for the 23 helicopters that will form the presidential and VIP fleet, AgustaWestland plans to extend a site in Amarillo, Texas, George Bush's home state. The firm also points out that it already has a joint-venture with Bell that sources 65% of its materials in America. Mr Guarguaglini hopes that good relations between the Italian and American governments will help clinch the deal. But even so, he is still a long way from landing his helicopters on the White House lawn.

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The Mitsubishi group

All in the family

May 27th 2004 | TOKYO
From The Economist print edition

What the bail-out of Mitsubishi Motors says about Japan's business groups

WHEN Yataro Iwasaki started to build the Mitsubishi business empire, beginning in the 1870s with a steamship company, Japan was rapidly transforming itself into one of the world's economic powers. Alas, Japanese businessmen no longer adapt so quickly, often doggedly resisting change of any sort. If Iwasaki were alive today to witness the ¥450 billion ($4 billion) rescue by the Mitsubishi *keiretsu* (family of companies) of the ailing Mitsubishi Motors Corporation, announced on May 21st, what would he think? Would he appreciate the ties of loyalty that still exist within the group of firms? Or would the *keiretsu's* tolerance of failure merely fill him with shame?

AP

A bumpy ride

One thing is certain. Iwasaki would have been appalled by the car firm's performance. After losing ¥215 billion in the past financial year, sales are still falling. More losses beckon. Safety breaches, exacerbated by cover-ups, at the Mitsubishi Fuso truck firm have damaged its brand. There are no exciting models in the pipeline. So when DaimlerChrysler, a German car giant with a 37% stake in Mitsubishi Motors, decided recently that it would no longer throw good money after bad, few other investors were likely to help—except the Mitsubishi family.

Most of the money to rescue Mitsubishi Motors will come from related firms. The Bank of Tokyo-Mitsubishi, along with Mitsubishi Trust bank, will swap ¥130 billion of Mitsubishi Motors' debts for equity stakes. Mitsubishi Motors will raise another ¥140 billion by issuing preferred shares to firms in the group, including ¥40 billion each to Bank of Tokyo-Mitsubishi, Mitsubishi Heavy Industries and the Mitsubishi Corporation (the group's trading arm, which handles business ventures around the world). Another ¥70 billion will come from Phoenix Capital, a venture fund started by former employees of Bank of Tokyo-Mitsubishi. The group is providing people, too, such as Yoichiro Okazaki, who has moved from Mitsubishi Heavy Industries to help oversee restructuring.

The rescue reinforces the Mitsubishi group's reputation as the most tightly knit of Japan's *keiretsu*: horizontal business groups, anchored by a bank and a trading company, that stick together by holding shares in each other and buying each others' wares. Although the Mitsubishi logo no longer strikes fear into western rivals, the group still boasts a big footprint in lots of industries. Its 29 main companies range from Mitsubishi Chemical and Mitsubishi Electric to Kirin (beer), Nikon (cameras) and Nippon Yusen KK, the shipping company that started it all.

These firms are nominally independent, but stay bound—financially, commercially and socially—in ways big and small. For example, four members (Mitsubishi Corporation, Mitsubishi Heavy Industries and the two banks) owned 26% of Mitsubishi Motors before the bail-out. Group executives still get together on the second Friday of each month to reinforce their social ties. Even Mitsubishi's detractors share the group mentality, maintaining an overarching website for criticism: mitsubishisucks.com.

Still, there have always been limits on group loyalty. Mitsubishi Corporation, for example, has long purchased much of its computer equipment from outsiders, such as Hitachi and Toshiba, rather than rely on Mitsubishi Electric. And the boundaries have widened, as they have for other *keiretsu*. In 1996, Mitsubishi Bank merged with the Bank of Tokyo, thus bringing outsiders to the heart of the group. In 2000, the group allowed DaimlerChrysler to acquire an initial 34% stake, later raised. Last year, says a former engineer at Mitsubishi Heavy Industries' Nagasaki plant, the company finally stopped restricting garage spaces only to Mitsubishi cars. Nowadays Mitsubishi salarymen no longer feel obligated to order a Kirin beer at the local bar.

The group thus risks taking a huge step backwards by rescuing Mitsubishi Motors, unless it acts fast to force painful changes at the firm. Arguably, it was the weakness of the Fuyo *keiretsu*, which includes Nissan Motor, that made it easier for Renault's Carlos Ghosn to overcome internal resistance and turn its Japanese carmaking partner around. Analysts reckon that the Mitsubishi group provided a more reliable cushion for Mitsubishi Motors, allowing it to resist changes sought by DaimlerChrysler. Bank of Tokyo-Mitsubishi, after all, is the soundest of Japan's shaky banks.

For now, the Mitsubishi group's senior executives are promising to be tough on their wayward relative. Mr Okazaki describes the restructuring as “our last chance for survival as an automaker”. Others in the group say that the potential damage to the Mitsubishi brand from a collapse of the motor firm, plus the profits the trading company earns from car sales, mean that the rescue is worth the effort. But they also say that there will be no more rescues after this one. Analysts are sceptical, at best. So would have been Iwasaki.

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Face value

Keeping an eye on business

May 27th 2004
From The Economist print edition

How scared should corporate China be of Hu Shuli?

HU SHULI rushes in late, hair dishevelled, a notebook falling out of her bag. Beaming and offering Chinese tea, the 51-year-old breathlessly explains that she was at lunch with John Thornton, former president of Goldman Sachs and now a professor at Tsinghua University. An ex-editor of the *International Herald Tribune* is about to drop by. She has an edition to put out.

The editor of the twice-monthly (soon weekly) *Caijing* magazine—the name means finance and business—brims with the excitement of a genuine news-hound. China's shift towards a market economy has triggered a wave of corruption and business scandals. In the past few weeks alone, D'Long, a big private conglomerate, has run into financial difficulties; Lucent has fired its top four China managers, alleging that they took bribes; and the government has arrested the entire senior management of a steel plant near Shanghai for “illegal” expansion. “In China there is more news than journalists—it is the opposite of the West,” says Ms Hu. “We are the world's luckiest reporters.”

As the news flow has increased, so has the freedom of Chinese journalists to report it. The market is still dominated by state-owned papers such as the *People's Daily* and the *Worker's Daily* that regurgitate government propaganda. But gradual deregulation of the media has allowed several feisty, relatively independent publications to spring up. *Caijing* is the best-known.

Founded in 1998 and owned by a group of Chinese intellectuals—notably Wang Boming, the son of a former deputy foreign minister—who earlier helped to set up China's stockmarkets, *Caijing* combines investigative reporting with the sort of critical commentary that a decade ago would have landed its journalists in jail. A story on investment funds a few years ago was so hard-hitting that Ms Hu was dubbed “the most dangerous woman in China”. The magazine (which in the past has had a joint publishing deal with The Economist Group) has a circulation of 80,000 and 40 journalists crowded into a dingy office in Beijing. But thanks to the deep pockets of its parent, SEEC, which Mr Wang wants to build into China's biggest print media group, Ms Hu has the country's biggest editorial budget per journalist. Thus, she pays her writers well, discouraging them from the normal practice among Chinese journalists of accepting envelopes full of money from firms in return for favourable write-ups.

Caijing's mission is to stop China, as it lurches towards the market, from succumbing to the crony capitalism widespread in Asia. “We want to influence decision-makers, not reflect what they think. That

makes us very different from the official papers that write what they are told to and the commercial papers, which pander to readers. We suggest solutions," says Ms Hu.

This editorial mission regularly pushes at the boundaries of China's still-limited press freedom. Judging exactly how hard to push has, so far, been one of Ms Hu's greatest strengths. Having spent a decade at the *Worker's Daily*, she knows how the official media work. Several stints in America, including a year at Stanford University, taught her about the power of a free media. In 1991, she wrote the first book in Chinese on the principles of American journalism. This, and powerful friends (she counts Wu Jinglian, China's top economist, among her mentors), have honed Ms Hu's instincts when it comes to assessing whether *Caijing*'s latest scoop will push the authorities too far. It is a skill she will increasingly need as she takes *Caijing* beyond financial scandals into more dangerous territory—commenting on government policy. The Falun Gong sect and the Tiananmen Square protests are off limits, she says. Mostly she can "just feel" if a story will be too controversial. Last year, she ran reports about Beijing's cover-up of the SARS epidemic, for example. These won her many plaudits—yet she reserved her severest criticisms until after the government publicly admitted its errors, and fired its minister of health and the mayor of Beijing.

She is a risk-taker, nonetheless, boasting that *Caijing* has even lost two court cases. (But she denies a rumour that the magazine was pulled from the news-stands for a story on a Shanghai property magnate, Zhou Zhengyi.) Getting sued in China is easy for a paper. A single mistake in an article can lead to prosecution for "false reporting": judges typically decide for a plaintiff unless a publication can prove that its entire article is true. But, so far, *Caijing* has avoided the fate of the *Southern Metropolitan Daily*, a tabloid in Guangdong province. In March, its editor-in-chief and general manager were jailed on bribery charges, in what appears to be retaliation for aggressive reporting on the SARS cover-up.

Don't publish and be damned

A degree of self-censorship may be the only pragmatic way to operate in China today. But it does raise questions about how deep *Caijing*'s independence goes. Perhaps *Caijing* is being tolerated—or even used—by the authorities as a safety valve: criticising certain scandals and corruption cases that the public is already aware of, and angry about, but letting the really big fish off the hook and the most sensitive issues go unreported. If so—and Ms Hu denies it—*Caijing* may be contributing to the maintenance of a system it says it is trying to change.

Meanwhile, even as Ms Hu admonishes her subordinates at *Caijing* to print only "facts, facts, facts", she notes that increased press freedom has meant that more and more Chinese newspapers are happy to publish rumours and gossip dressed up as news. With falling financial support from the state, magazines are having to compete ever harder for readers and investment. *Caijing* is feeling the heat, with circulation flat and imitators nipping at its heels. Ms Hu says that the sweeping redesigns of desperate editors are not for her. Yet she worries that she should care more about "commercial things like the cover art". In the end, her biggest challenge as an editor may be one familiar to her western counterparts—resisting the pressure to dumb down.

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Saudi Arabia and oil

What if?

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Terrorists are now targeting Saudi Arabia's oil infrastructure. How bad could things get?

Get article background

NOT SO long ago, a certain well-known international figure penned a heart-felt speech he called his “Letter to the American People”. In it, he said: “You steal our wealth and oil at paltry prices because of your international influence and military threats. This theft is indeed the biggest theft ever witnessed by mankind in the history of the world.” The author was Osama bin Laden.

The impact of those chilling words is still being felt in today's chaotic energy markets. Oil prices have recently been above $40 a barrel. Politicians in oil-consuming economies are up in arms. Saudi Arabia, the head of the Organisation of Petroleum Exporting Countries (OPEC), has promised relief. It is trying to persuade reluctant cartel members to increase production when they meet on June 3rd in Beirut.

Typically, a decision by OPEC to increase quotas cools prices. This time may be different. A soaring world economy has sucked global inventories dry. Nearly every OPEC producer, save Saudi Arabia, is already producing about as much oil as it can. That means that any new OPEC promise of oil will have to come chiefly from the Saudis themselves—and that is not good news.

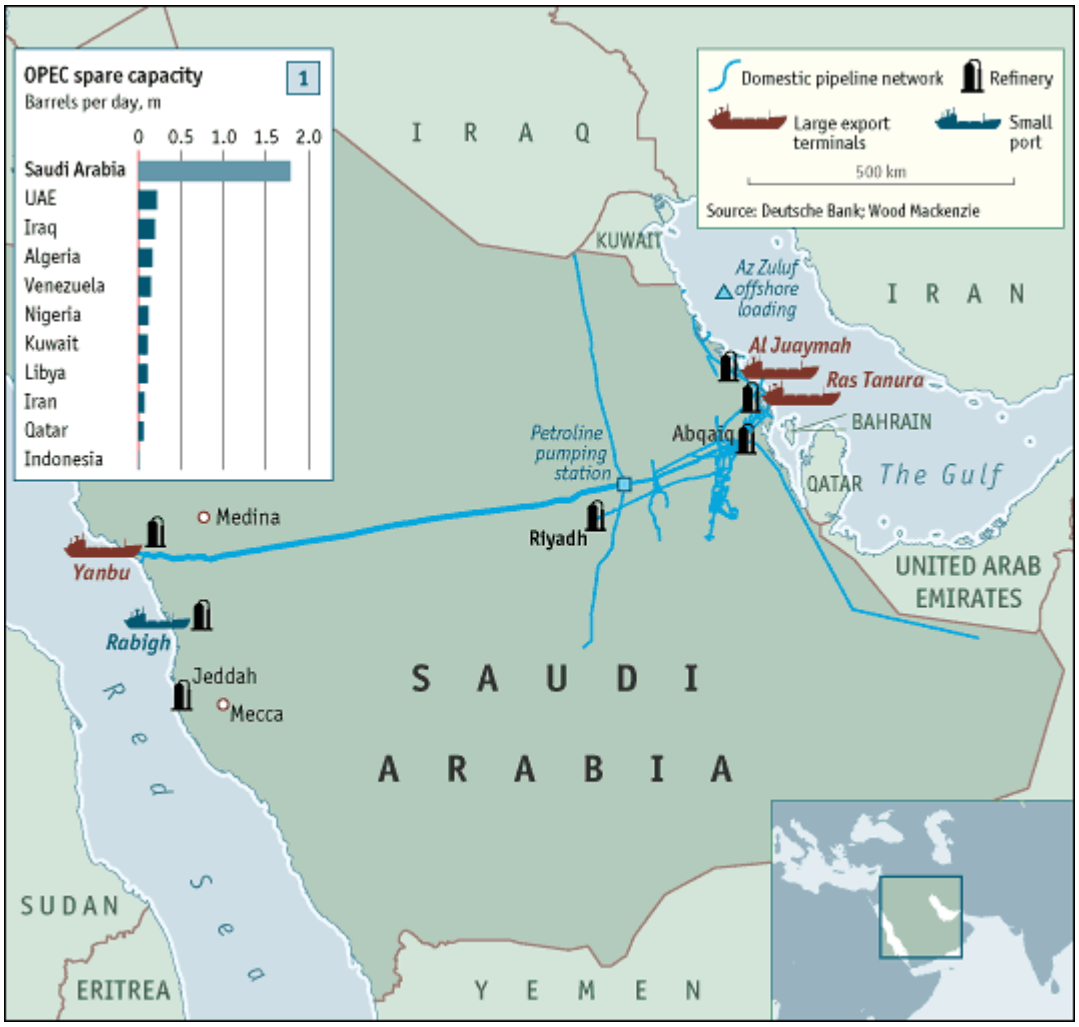
The main reason for worry is the so-called “terror premium”. Oil traders report that fears of terrorist attacks that might disrupt Middle-Eastern oil exports may account for as much as $8 of the current per-barrel price. That may be because what was once unthinkable now seems possible, perhaps even inevitable: a major terrorist attack, or series of attacks, on oil facilities within Saudi Arabia.

But how well-founded are these fears? For the terror premium to be justified, one needs to consider three questions: Is Saudi Arabia really so important? Would it in fact be easy to pull off a serious attack inside the desert kingdom? And even if such an attack were to take place, would the oil markets suffer so badly?

First, is Saudi Arabia so important? Until the recent rise in prices, most headlines had trumpeted the growing importance of other oil producers. The revival of Russia , overtaking even Saudi output, was supposed to undermine OPEC. Oil from Alaska would give America “energy independence”. The quest for oil in the Caspian Sea was called the “Great Game”. Striking oil in the waters off Brazil and west Africa was even likened to hunting elephants.

Surely all this investment and discovery prove that the Saudis are ever less important to the oil market these days? Nonsense. Ignore the headlines and look instead at geological and market realities, and it quickly becomes clear that Saudi Arabia remains the indispensable nation of oil. The Saudis not only export more oil than anyone else, but they also have more reserves than anyone else—by a long shot. Fully one-quarter of the world's proven reserves lie in Saudi Arabia. Four neighbours—Iran, Iraq, the United Arab Emirates and Kuwait—each have about one-tenth. Russia, Nigeria and Alaska put together do not match Saudi reserves.

Even more important is Saudi Arabia's role as swing producer. Unlike other countries, the Saudis keep several million barrels per day (bpd) of idle capacity on hand for emergencies. Today Saudi Arabia is the only country with much spare capacity available (see chart 1), though the precise amount is a matter of intense debate. Nansen Saleri, an official at Saudi Aramco, the country's state-owned oil company, will say only that Saudi output will rise in June to about 9m bpd, and that the country can raise its output above 10m bpd “rapidly”.



This spare capacity allows the Saudis to moderate oil-price spikes. They have done precisely this at various times: during the Iran-Iraq war, when output from both countries was disrupted; during and after the first Gulf war, when output from Iraq and Kuwait was lost; and last year, when civil strife in Venezuela and Nigeria curbed output from both countries on the eve of last year's invasion of Iraq (which itself disrupted Iraqi output).

Produce the juice

The Saudis remain keen to moderate prices by using their buffer capacity. Last week, when some OPEC ministers rebuffed a Saudi proposal to raise output quotas at the Beirut meeting, they offered to lift production unilaterally. That might cool prices a bit, but would also leave the Saudis with less spare capacity to prevent a further oil shock.

That points to the second question: how vulnerable is Saudi Arabia's oil industry to terrorist attack? Not long ago, this desert kingdom was seen as a reliable and supremely safe source of oil. Indeed, some called it the central bank of oil.

After the September 11th attacks, such assessments seem too rosy. Terrorism is now clearly a serious problem. Not only were most of the 9/11 suicide attackers Saudi (15 out of 19), but reports suggest some Saudis are fighting against American-led coalition forces in southern Iraq. And increasingly, Saudi terrorists are striking targets at home—including oil infrastructure. On May 1st, one group killed several foreigners working at a petrochemical complex in Yanbu, the biggest oil-export terminal on the country's Red Sea coast (see map, above).

Not everyone is worried. Nawaf Obaid, an adviser to the Saudi royal family, argues in the latest issue of *Jane's Intelligence Review* that the risk of a successful attack on oil facilities remains “very low”. He explains: “At any one time, there are up to 30,000 guards protecting the Kingdom's oil infrastructure, while high-technology surveillance and aircraft patrols are common at the most important facilities and

anti-aircraft installations defend key locations." Mr Obaid claims that the Saudi government has added $750m over the past two years to its security budget (which totalled $5.5 billion last year, according to him) specifically to fortify the oil sector.

A sitting duck?

Kevin Rosser of Control Risks Group, a business-risk consultancy, agrees. He observes that there is plenty of redundancy built into the Saudi network—through multiple ports, pipelines and excess capacity—that should ease the blow from any attack. Besides, he insists, to do any real damage terrorists would have to hit bottlenecks, not just blow up random bits of pipeline. Mr Rosser quips that, "the golden goose is not a sitting duck."

Maybe so, but other security experts think that goose may yet be cooked. James Woolsey, a former head of America's Central Intelligence Agency, is unimpressed by talk of improved security: "Guards and fences are easy to put up, but they don't defend against the real threats." Trucks have to come in and out of facilities, he observes, and Aramco employees and security guards have to move about. He thinks that several attacks, if co-ordinated by terrorists who have infiltrated Aramco, could cripple the Saudi system.

How, exactly? Robert Baer, an intelligence expert, offers some suggestions in his disturbing recent book, "Sleeping with the Devil". He reckons that Ras Tanura, a port on the Gulf, is a vulnerable terrorist target. With an output of perhaps 4.5m bpd, this is the biggest oil-exporting port in the world. Mr Baer thinks a small submarine or a boat laden with explosives (as happened in October 2000 with the attack on the *USS Cole* off the coast of Yemen) could knock out much of Ras Tanura's output for weeks, or even longer.

An even scarier possibility raised by Mr Baer is the crashing of a hijacked aeroplane into Abqaiq, the world's largest oil-processing complex. If done with the help of insiders, he speculates that the facility's throughput (nearly 7m bpd, on his estimate) would be choked off to as little as 1m bpd for two months—and might remain as low as 3m bpd for seven months.

Mr Woolsey adds that an attack using weapons of mass destruction (especially "dirty bombs") would be even more devastating than one that used mere aeroplanes. All told, the pessimists reckon that well-co-ordinated attacks could take as much as 6m-7m bpd of Saudi output off the market for weeks, and perhaps longer.

Taking stock

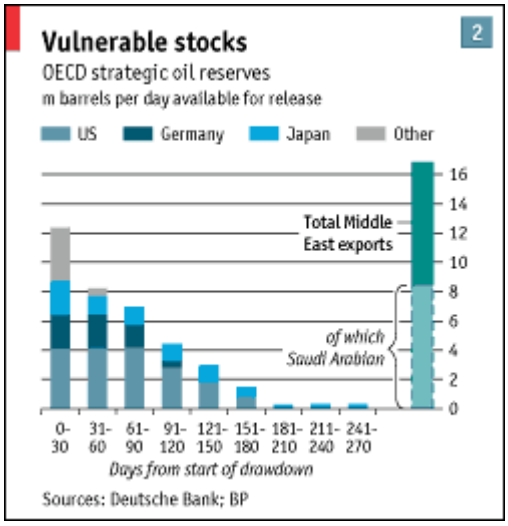
How would the world oil market react to such a blow? The world is clearly better equipped to handle a supply shock than it was during the turbulent 1970s. For a start, the rich world is much less energy intensive. Unlike three decades ago, OECD countries now maintain large "strategic reserves" of petroleum, and co-ordinate the release of these during emergencies through the International Energy Agency (IEA). The rise of energy futures markets over the past two decades also offers some scope for the world to deal better with short-term price shocks.

Even so, there is good reason to worry. The unprecedented prospect of Saudi Arabia under attack from within exposes the vulnerabilities of the world's two chief forms of insurance against oil shocks: IEA stocks and Saudi swing capacity.

As chart 2 reveals, strategic petroleum stocks (which are stored in such places as salt domes in Louisiana) cannot be drawn down all at once. If a loss of Saudi output is anything like as long-lived as Mr Baer fears, or if other Middle Eastern output is also lost at the same time, then strategic stocks may prove inadequate. Prices will soar, and the market will return to equilibrium only through painful cuts in consumption and accompanying losses in economic output and welfare.

The more troubling revelation surrounds Saudi swing capacity. There is the obvious point, of course, that this particular insurance

policy will not be worth very much if there is a serious supply crisis inside the kingdom. However, even if the horror scenarios never happen, the global spare-capacity crunch is still alarming.



Amy Jaffe of the Baker Institute, at America's Rice University in Texas, observes that in 1985 OPEC maintained about 15m bpd of spare capacity—about one-quarter of world demand at that time. In 1990, when Iraq invaded Kuwait, OPEC still had about 5.5m bpd of spare capacity (about 8% of world demand). That, argues Ms Jaffe, meant that the cartel could easily and quickly expand output to absorb several disruptions at once.

That is simply no longer true. Today's fast-shrinking spare capacity of about 2m bpd is less than 3% of demand—and it is entirely in Saudi hands. And yet, “normal” threats to supply that fall far short of doomsday terrorist scenarios remain. Venezuela and Nigeria both face political tests in coming weeks that could cripple oil exports. The coalition in Iraq is due to hand over power to local authorities at the end of June, and terrorist attacks are possible. Whether the Saudis can handle the consequences of all this is entirely unclear.

And yet somehow they must. There is little chance that the Saudis will be dislodged as swing producer anytime soon, even by a resurgent Iraq. One reason is cost: the Saudis sit atop the cheapest reserves in the world. Another is the fact that Saudi oil remains in state hands. Aramco does not have to justify to shareholders the billions it wastes on idle fields—a luxury that privatised Russian firms and western oil majors do not enjoy. Even if Iraqi oil remains in state hands, as appears likely, a cash-starved independent Iraqi government could not justify developing fields that will remain idle.

A witch's brew

Of course, disaster might not happen. The Middle East may cool down, Osama bin Laden may be nabbed and al-Qaeda disrupted, and a speculative bubble in American gasoline may burst. Oil prices could yet moderate. If they do, however, it would be wise to remember just how precariously the world's oil markets are balanced now—and may again be in future, if things take a wrong turn in Saudi Arabia.

A witch's brew of soaring oil demand, private-sector destocking and lack of investment in new production capacity by OPEC has left the world with an extraordinarily tight oil market today. There is less spare capacity than at almost any point in the past 30 years. As Edward Morse, an energy expert at HETCO, an oil-trading firm, puts it: “The world has been living off surplus capacity built a generation ago, and thought it could get by. It turns out not to be the case.” Building a new surplus will inevitably take a long time. Until then, the potential instability of Saudi Arabia's oil supply will remain a strategic weakness for the world economy.

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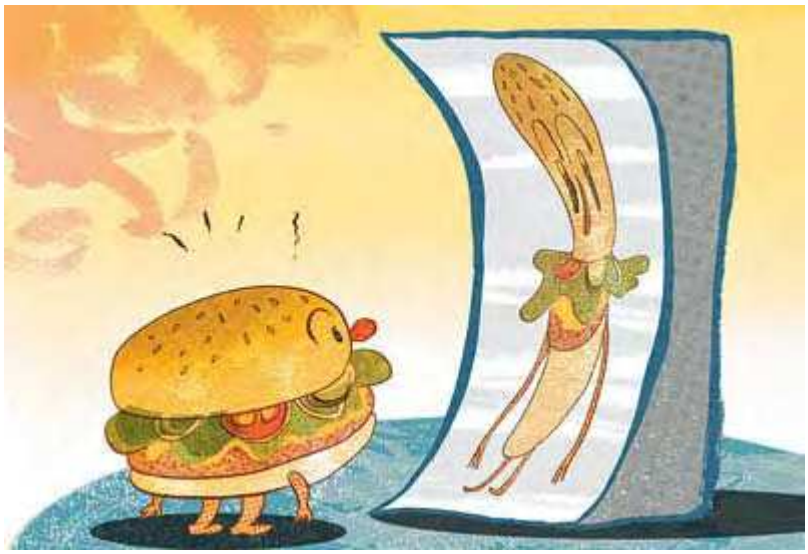
The Big Mac Index

Food for thought

May 27th 2004
From The Economist print edition



The world economy looks very different once countries' output is adjusted for differences in prices

HOW fast is the world economy growing? How important is China as an engine of growth? How much richer is the average person in America than in China? The answers to these huge questions depend crucially on how you convert the value of output in different countries into a common currency. Converting national GDPs into dollars at market exchange rates is misleading. Prices tend to be lower in poor economies, so a dollar of spending in China, say, is worth a lot more than a dollar in America. A better method is to use purchasing-power parities (PPP), which take account of price differences.

The theory of purchasing-power parity says that in the long run exchange rates should move towards rates that would equalise the prices of an identical basket of goods and services in any two countries. This is the thinking behind *The Economist's* Big Mac index. Invented in 1986 as a light-hearted guide to whether currencies are at their “correct” level, our “basket” is a McDonalds' Big Mac, which is produced locally in almost 120 countries.

The Big Mac PPP is the exchange rate that would leave a burger in any country costing the same as in America. The first column of our table converts the local price of a Big Mac into dollars at current exchange rates. The average price of a Big Mac in four American cities is $2.90 (including tax). The cheapest shown in the table is in the Philippines ($1.23), the most expensive in Switzerland ($4.90). In other words, the Philippine peso is the world's most undervalued currency, the Swiss franc its most overvalued.

The second column calculates Big Mac PPPs by dividing the local currency price by the American price. For instance, in Japan a Big Mac costs ¥262. Dividing this by the American price of $2.90 produces a dollar PPP against the yen of ¥90, compared with its current rate of ¥113, suggesting that the yen is 20% undervalued. In contrast, the euro (based on a weighted average of Big Mac prices in the euro area) is 13% overvalued. But perhaps the most interesting finding is that all emerging-market currencies are undervalued against the dollar. The Chinese yuan, on which much ink has been spilled in recent months, looks 57% too cheap.

The Big Mac index was never intended as a precise forecasting tool. Burgers are not traded across

borders as the PPP theory demands; prices are distorted by differences in the cost of non-tradable goods and services, such as rents.

Yet these very failings make the Big Mac index useful, since looked at another way it can help to measure countries' differing costs of living. That a Big Mac is cheap in China does not in fact prove that the yuan is being held massively below its fair value, as many American politicians claim. It is quite natural for average prices to be lower in poorer countries and therefore for their currencies to appear cheap.

The prices of traded goods will tend to be similar to those in developed economies. But the prices of non-tradable products, such as housing and labour-intensive services, are generally much lower. A hair-cut is, for instance, much cheaper in Beijing than in New York.

One big implication of lower prices is that converting a poor country's GDP into dollars at market exchange rates will significantly understate the true size of its economy and its living standards. If China's GDP is converted into dollars using the Big Mac PPP, it is almost two-and-a-half-times bigger than if converted at the market exchange rate. Meatier and more sophisticated estimates of PPP, such as those used by the IMF, suggest that the required adjustment is even bigger.

The hamburger standard

	Big Mac price in dollars*	Implied PPP† of the dollar	Under (-)/ over (+) valuation against the dollar, %
United States‡	2.90	–	–
Argentina	1.48	1.50	-49
Australia	2.27	1.12	-22
Brazil	1.70	1.86	-41
Britain	3.37	1.54§	+16
Canada	2.33	1.10	-20
Chile	2.18	483	-25
China	1.26	3.59	-57
Czech Rep.	2.13	19.5	-27
Denmark	4.46	9.57	+54
Egypt	1.62	3.45	-44
Euro area	3.28**	1.06††	+13
Hong Kong	1.54	4.14	-47
Hungary	2.52	183	-13
Indonesia	1.77	5,552	-39
Japan	2.33	90.3	-20
Malaysia	1.33	1.74	-54
Mexico	2.08	8.28	-28
New Zealand	2.65	1.50	-8
Peru	2.57	3.10	-11
Philippines	1.23	23.8	-57
Poland	1.63	2.17	-44
Russia	1.45	14.5	-50
Singapore	1.92	1.14	-34
South Africa	1.86	4.28	-36
South Korea	2.72	1,103	-6
Sweden	3.94	10.3	+36
Switzerland	4.90	2.17	+69
Taiwan	2.24	25.9	-23
Thailand	1.45	20.3	-50
Turkey	2.58	1,362,069	-11
Venezuela	1.48	1,517	-49

MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*

	Big Mac price in dollars*	Implied PPP† of the dollar	Under (-)/ over (+) valuation against the dollar, %
Aruba	2.29	1.41	-21
Belarus	1.37	1021	-53
Bulgaria	1.85	1.03	-36
Colombia	2.35	2241	-19
Costa Rica	2.61	390	-10
Croatia	2.42	5.14	-17
Dom. Rep.	1.32	20.7	-54
Estonia	2.27	10.2	-22
Fiji	2.35	1.47	-19
Georgia	1.90	1.26	-34
Guatemala	2.01	5.52	-31
Honduras	1.98	12.4	-32
Iceland	6.01	151	107
Jamaica	1.88	39.0	-35
Jordan	3.65	0.89	26
Kuwait	7.33	0.74	153
Latvia	2.00	0.38	-31
Lebanon	2.84	1483	-2
Lithuania	2.26	2.24	-22
Macau	1.40	3.86	-52
Macedonia	1.84	32.8	-36
Moldova	1.93	7.93	-33
Morocco	0.26	0.82	-91
Nicaragua	2.19	11.9	-25
Norway	5.18	12.2	79
Pakistan	1.90	37.9	-34
Qatar	0.68	0.85	-77
Saudi Arabia	0.64	0.83	-78
Slovakia	1.98	22.8	-32
Slovenia	2.42	166	-17
Sri Lanka	1.41	48.3	-51
Ukraine	1.36	2.50	-53
UAE	0.67	0.84	-77
Uruguay	1.00	10.3	-65

*At current exchange rates †Purchasing-power parity ‡Average of New York, Chicago, San Francisco and Atlanta §Dollars per pound **Weighted average of member countries ††Dollars per euro

Sources: McDonald's; *The Economist*

Weight watchers

The global economic picture thus looks hugely different when examined through a PPP lens. Take the pace of global growth. Anyone wanting to calculate this needs to bundle together countries' growth rates, with each one weighted according to its share of world GDP. Using weights based on market exchange rates, the world has grown by an annual average of only 1.9% over the past three years. Using PPP, as the IMF does, global growth jumps to a far more robust 3.1% a year.

The main reason for this difference is that using PPP conversion factors almost doubles the weight of the emerging economies, which have been growing much faster. Measured at market exchange rates, emerging economies account for less than a quarter of global output. But measured using PPP they account for almost half.

Small wonder, then, that global economic rankings are dramatically transformed when they are done on a PPP basis rather than market exchange rates. America remains number one, but China leaps from seventh place to second, accounting for 13% of world output. India jumps into fourth place ahead of Germany, and both Brazil and Russia are bigger than Canada. Similarly, market exchange rates also exaggerate inequality. Using market rates, the average American is 33 times richer than the average Chinese; on a PPP basis, he is “only” seven times richer.

The way in which economies are measured also has a huge impact on which country has contributed most to global growth in recent years. Using GDP converted at market rates China has accounted for only 7% of the total increase in the dollar value of global GDP over the past three years, compared with America's 25%. But on PPP figures, China has accounted for almost one-third of global real GDP growth and America only 13%.

This helps to explain why commodity prices in general and oil prices in particular have been surging, even though growth has been relatively subdued in the rich world since 2000. Emerging economies are not only growing much faster than rich economies and are more intensive in their use of raw materials and energy, but they also account for a bigger chunk of global output if measured correctly. As Charles Dumas, an economist at Lombard Street Research, neatly puts it, even if a Chinese loaf is a quarter of the cost of a loaf in America, it uses the same amount of flour.

All measures of PPP are admittedly imperfect. But most economists agree that they give a more accurate measure of the relative size of economies than market exchange rates—and a better understanding of some of the dramatic movements in world markets. The humble burger should be part of every economist's diet.

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Spitzer v Grasso

Greed is bad

May 27th 2004 | NEW YORK
From The Economist print edition

Richard Grasso, self-professed "CEO of capitalism", is sued for being too greedy

THE symbolism of a case is rarely so perfect: Dick Grasso, who spent eight years atop the New York Stock Exchange (NYSE) as a combined mascot and regulator of the world's biggest companies and investment banks, is being sued for the era's most egregious excess: executive compensation. On May 24th, New York's attorney-general, Eliot Spitzer, filed civil charges against Mr Grasso, demanding the return of at least $100m, slightly more than half of what he may have been eligible to receive in his final years on the job. Characteristically, Mr Grasso said he was worth every penny, demanded an apology and offered vague threats of a counter-suit.

A trial now seems inevitable. Joining Mr Grasso as a defendant is Ken Langone, former chairman of the NYSE's compensation committee. Mr Spitzer has already reached settlements with Frank Ashen, former head of the NYSE's human resources team, and Mercer Human Resource Consulting, which had analysed Mr Grasso's pay for the board. Both have admitted providing inaccurate information. Mr Ashen will give $1.3m back to his ex-employer; Mercer will return the fees it charged the exchange in 2003.

Also spared from being the direct target of litigation are the members of the NYSE's board (Mr Langone apart), a list that includes many a Wall Street big-hitter. A line was drawn, Mr Spitzer said, between those who misled and those who were misled, though everyone in this grubby tale would "live to regret" their involvement.

Although the board will not be at the defendant's table, their actions are likely to be closely scrutinised in any trial. Mr Grasso's compensation reflected a "paradigm for misbehaviour" by a board, and a "fundamental breakdown of corporate governance", says Mr Spitzer. The defendants intend to provide voluminous information showing that the board was fully aware of Mr Grasso's pay and therefore, presumably, complicit in his actions.

The case against Mr Grasso rests largely on the allegation that his pay package violated New York's Not-for-Profit Corporation Law, which governs the exchange. That law states that executive pay should be "reasonable" and "commensurate with services provided". Mr Grasso's was nothing of the sort, says Mr Spitzer. His salary and bonus for the four years from 1995 were $17.8m; in the following four years they were $80.7m. Mr Grasso benefited from a dizzying array of programmes, including such delights as the Supplemental Executive Retirement Plan and the Supplemental Executive Savings Plan.

Perhaps the most damaging allegations concern how Mr Grasso ran the exchange. According to the complaint, he "had the authority unilaterally to select those who served on the Compensation Committee. He also regulated most of them. This conflict allowed Grasso to influence directors who might have wanted to pay him less, and to reward directors who would pay him more." In other words, the bankers on the committee, appointed by Mr Grasso, paid him vast sums, in return for which he helped smooth regulatory problems.

The NYSE described in the complaint is controlled by a man willing to trade favours. The most disturbing anecdote concerns a meeting of Wall Street leaders with the then chairman of the Securities and Exchange Commission, Harvey Pitt, in 2001. Questions were raised about tainted research by stock analysts. A response, Mr Pitt reportedly said, should be organised by the exchange and the industry. Mr Grasso, it is alleged, responded by giving the heads of two of the firms that employed the analysts places on the NYSE board, and then pushing through a lucrative new contract for himself.

Yet for all this, the case is not clear-cut. Much rests on what is "reasonable" pay. At the NYSE Mr Grasso built market share, and the value of a seat on the exchange tripled. He was also a good lobbyist in

Washington. But most of the improvement at the NYSE was due to a raging bull market.

Until now, Mr Spitzer's strategy has been to state a case and watch opponents settle rather than suffer damage to their business. But Mr Grasso no longer has a business, and he too is used to people settling on his terms. He has come out fighting, claiming that Mr Spitzer's suit “smacks of politics”. (Mr Spitzer has his eye on the governorship of New York.) Mr Grasso seems to be betting that, however distasteful a jury finds his compensation, it will find the alternatives worse.

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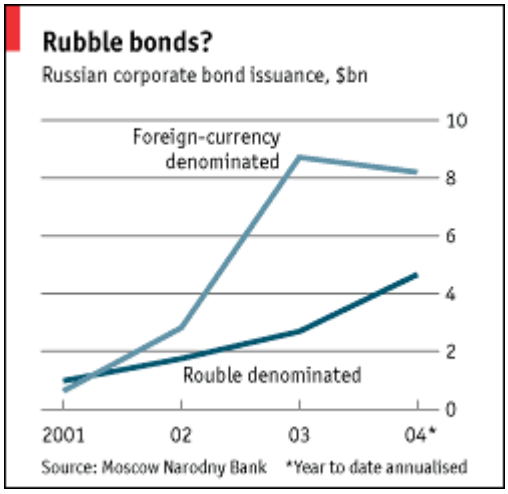
Russian corporate bonds

Ugh!

May 27th 2004 | MOSCOW
From The Economist print edition

The travails of Russia's corporate-bond market



ENTHUSIASM for Russian corporate bonds, anyway dwindling fast, is likely to dwindle still further following the default on May 25th of the appropriately named Sodbiznesbank, which on its own figures was one of Russia's biggest banks. Its licence had been revoked by the central bank on May 13th, which accused it, *inter alia*, of money laundering, financing terrorism, inflating its capital and processing ransom money. Administrators appointed by the central bank were barred from entering, and shadowy figures were seen inside apparently shredding documents. The chances of investors getting their money back appear slim.

This is bad enough, for sure. Worse is that investors in all Russian bonds have not been rewarded nearly enough for the risks they have been running, namely that the issuers will end up like Sodbiznesbank. The rouble corporate-bond market has grown like topsy in recent months, precisely because Russian borrowers have stuffed masses of bonds into the hands of financial neophytes, who have had almost no idea that they should be compensated far more handsomely for buying bonds of breathtaking riskiness.

Until the middle of last year, foreign and domestic investors had mostly been piling into foreign-currency bonds. Issuance surged from $629m in 2001 to $8.7 billion last year. So far this year, Russian companies have issued another $3.4 billion. But deterred from buying dollar bonds (traditionally the savings vehicle of choice for rich Russians) by a strengthening rouble, Russian investors started to wade into domestic bonds. More domestic corporate bonds were issued in the first four months of this year than in the whole of 2002.

And who can blame companies for wanting to issue bonds by the bucket-load? Investors fell over one another in their eagerness to buy anything with a sniff of return. As they piled in, prices rose spectacularly. The yield on a one-year bond issued by Gazprom, which is considered a blue-chip issuer in Russia even though it does not have an investment-grade rating, fell from about 10% last September to 6% or thereabouts in late March.

The shakier the credit, the better the price performance. So far did its price rise that the yield of a one-year bond issued by Uralsvyazinform, a telecom company with a single-B rating from Standard & Poor's (translation: be very careful) fell from over 13% at the start of December to under 8% at the beginning of April, and the yield of Irkut, a heavy-machinery-maker with no rating at all, dropped to 8.5%, according to Michael Workman, an analyst at Trust Investment Bank.

Over the past few weeks, investors have started to panic and prices have fallen sharply, driving yields up. About time. Inflation, though falling for now, is 10%, which makes a bond yielding anything less decidedly unenticing.

Just as worrying are developments at Yukos, which used to be Russia's biggest oil company before Mikhail Khodorkovsky, its boss, was arrested last October and the company charged with tax evasion. In the middle of April the company was downgraded to CCC by S&P. Buying debt with such a rating, as one investor memorably put it, is like playing Russian roulette with all the chambers loaded. On May 26th, a Moscow court declared that Yukos must pay the $3.5 billion that the tax authorities said that it owed them—and more claims may be on their way. Default looms.

The problems at Yukos have a wide resonance for corporate-bond investors. This is because it seems entirely likely that the government will be able to dispossess the present owners of the firm because of the tax-avoidance schemes that it used—and variations on these schemes have been used by many other big companies.

Ownership of assets is, in any case, often hazy, not least in the energy industry. Gazprom, Russia's biggest gas producer, claims that some of its assets were transferred illegally to Novotek, another gas company. Novotek was nonetheless able to issue bonds very cheaply. Even where ownership is fairly clear, many companies issue bonds through subsidiaries with little claim on the parent company's assets.

Equity investors might be willing to shoulder such risks for a prospective return that is mouthwatering. But bond investors are starting to find out that shouldering such huge risks for measly returns is a sure-fire recipe for losing money.

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Really poor countries

Nothing to sell

May 27th 2004
From The Economist print edition

A muddled but interesting UN report

AFP

Not much the WTO can do about this

FOR the record, *The Economist* does not believe that free trade will mend your rocky marriage. That should not need spelling out. But serious people are ascribing only slightly less silly views to free-trade enthusiasts such as ourselves, so we should perhaps make it clear that we don't think cutting tariffs will solve everything.

This week, the UN Conference on Trade and Development (UNCTAD) released a new report on the world's least developed countries (LDCs). It is badly written, of course: no UN document is complete without pious entreaties that “development complementarities be strengthened”. But what is most annoying is the effort it wastes on bayoneting a straw man.

It is an illusion, we are told, “to think that mass poverty found in most of the LDCs can be reduced through global integration and trade expansion alone”. Well, yes, it would be foolish to rely on trade liberalisation *alone* to feed the hungry and clothe the naked. But no one is suggesting that once a country has lowered trade barriers, it can relax and play golf.

Free trade is not much use if you have nothing to sell, and the least developed countries, by definition, produce little that the rest of mankind wishes to buy. It is far from simple to create an environment in which people can become more productive. If it were, even the inhabitants of Chad would be rich.

The report does identify some troubling trends. Most of the world's poorest countries formally opened their markets to international trade during the 1990s. Using the yardstick of imports and exports as a proportion of GDP, they are more integrated into the global economy than OECD (ie, rich) countries are (51% versus 43% in 1999-2001). Yet average incomes are only slightly higher in LDCs than they were in 1990, and the overall incidence of extreme poverty did not fall during the 1990s. In about a third of LDCs, exports grew during the 1990s, but average incomes fell.

UNCTAD calls this “the immiserising trade effect”—implying that freer trade impoverishes. But it fails to prove anything of the sort. Other culprits are more plausible. One is simply that population growth is high in most LDCs, so modest economic growth is not enough to make the average person richer. Another problem is that most of these economies are so small that an apparent export boom often means no

more than that exports of a single commodity have increased.

Of the six fastest-growing LDCs, three (Angola, Chad and Sudan) have suddenly started exporting more oil. Given the volatility of oil prices, their booms could quickly sputter. And given the tendency of the ruling classes in these three to snaffle the petrodollars, it is easy to see why more exports might not mean less poverty.

In all really poor countries, the formal economy is a small fraction of the whole. Most of their citizens are peasants, whose output is never recorded, because they eat it themselves. Formal statistics therefore overstate the extent to which such countries have globalised. Their exports as a proportion of measurable GDP may be high, but most of their people enjoy no links at all to the global trading system.

Such countries can appear to boom even during civil wars: well-guarded oil rigs continue to pump even as rebels burn the rest of the country. Soberingly, 60% of the LDCs suffered conflict in 1990-2001, up from 40% in 1978-89. Now that really did have an “immiserising effect”.

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Japanese banks

Better, not well

May 27th 2004 | TOKYO
From The Economist print edition

Bad loans are down, but where will new profits come from?

Get article background

IT HAS been a good year for Japan's big banks. Although UFJ and Resona, the fourth- and fifth-biggest lenders, continued to lose money, the others boasted sharply increased profits when they announced their results on May 24th. While these results, for the year to March 2004, show how huge are the strides that Japanese banks have made, they also show how far they have to go.

Much lower provisions for bad debts drove the turnaround. Non-performing loans fell from 5.3% of all loans to 2.9% at Mitsubishi Tokyo Financial Group (MTFG); from 8.4% to 5.0% at Sumitomo Mitsui Financial Group (SMFG); and from 6.3% to 4.4% at Mizuho.

A tide of red ink at Resona, which was rescued by the government last spring and posted a ¥1.66 trillion ($14.7 billion) net loss in the year to March, more than offset gains at bigger banks, though this was mainly because the bank was clearing up its balance sheet. Combined with a ¥403 billion net loss at UFJ, which sharply increased its loan provisions recently under pressure from regulators, the big banks as a group, including two big trust banks, had a net loss of ¥638 billion. That was, however, a vast improvement on the previous year's ¥4.62 trillion of combined losses.

Despite their sharp turnaround, there are still worries about the banks' future. The health of their loan books is one of them. Although MTFG and SMFG have clearly made great strides in getting duff loans off their books, a reversal of Japan's recent economic recovery could easily make them pile up again. The problems at UFJ also highlight the need for caution about how many of these loans are as good as the banks say they are. Profits were also boosted by a steep stockmarket rally, for the simple reason that their vast portfolios of shares made money rather than lost it. But the quality of those profits is poor, relying as it does on the level of the Nikkei.

Which brings up Japanese banks' biggest problem: making money. Demand for new loans has been falling for more than six years and spreads for lending are wafer thin. Beyond getting weak debtors to pay, the banks now need strong companies to borrow.

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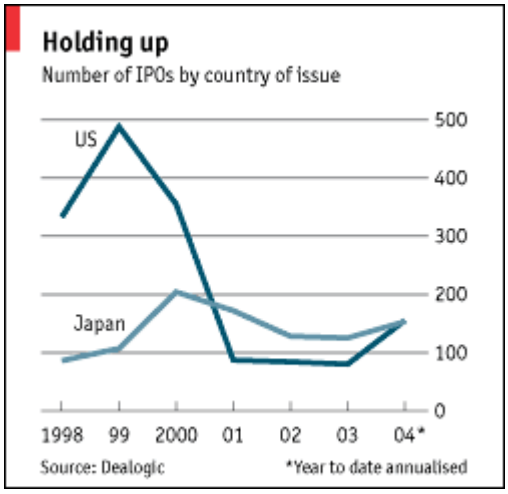
Japan's stockmarkets

Small miracles

May 27th 2004 | TOKYO
From The Economist print edition

Japan's retail investors discover the wonders of initial public offerings

Get article background



MAYBE foreign investors in Japanese equities have not been doing so well after all. Foreigners have been the main drivers of Japan's stockmarket rally since last spring: the Nikkei 225 index has risen by 47% since April 2003. Yet Japan's retail investors have enjoyed far more impressive gains in the country's tiddly stocks. The Jasdaq market for over-the-counter stocks, for example, has risen by 118% since last April. And investments in tiny firms floating their shares for the first time have proved even more lucrative still. A sign of the times: the shares of the latest, a trading company called Recomm, reached over twice their issue price at the end of their first day of trading on May 26th.

Many of the companies making these initial public offerings (IPOs) in a trio of markets—the Jasdaq, the "Mothers" market of the Tokyo Stock Exchange, and the "Hercules" market of the Osaka Stock Exchange—are simply too small for institutional investors. The average IPO in Japan last year raised only ¥5.38 billion ($46m), roughly a quarter the size of a typical American IPO. But Japan's individual investors, who now account for 70% of all Jasdaq transactions and an even bigger share of IPO trading, have been snapping up these tiny firms' new shares. Their hearty appetite allowed 121 Japanese firms to go public last year—50% more than in America. So far this year, another 54 firms have gone public in Japan.

Japan's small investors "have a lot of money", says Takashi Nishibori, chief editor of TokyoIPO.com, an information service. Mr Nishibori reckons that those individual investors are especially drawn to IPOs, even more than to other over-the-counter stocks, precisely because they go up so much when they are launched—far more, indeed, than in other countries. For this, Japan's small investors can thank in part the country's big securities houses, which were fiercely criticised after the collapse of Japan's IT bubble in 2001, and now seem to be setting offering prices exceptionally low as a result.

From 2000 to 2002, only two-thirds of IPO stocks finished above their initial offering price on the first day. That ratio rose sharply in 2003, and all 54 of the IPOs so far this year have risen on the first day of trading. In most cases, the price quickly doubles or triples. Risa Partners, a property company, went public in March with an offering price of ¥290,000 per share; traded at ¥700,000 on the first day, and reached ¥2.93m per share in mid-April. Since then it has fallen, and closed on May 26th at ¥1.67m a share.

Low offering prices are not the only difference between this IPO boom and the previous one. In 2000, when Japan boasted over 200 IPOs, most of the firms going public were in information technology. Now, a much wider range of small firms are floating. The 16 IPOs since April 1st included two nursing-care providers, a women's clothing wholesaler, a firm organising clinical trials for drugs, another making locks, and the Osaka Stock Exchange itself. The only IT-related firms were a handful of companies selling electronics hardware, a website for golfers, and a firm offering online tips about pachinko games to mobile-phone users.

As well as low issue prices, Japan's retail punters have been exploiting the cheaper trading commissions that are now available online through outfits such as Monex, which will become Japan's biggest online brokerage after a planned merger with Nikko Beans goes through this summer. Kathy Matsui, an equity

strategist at Goldman Sachs in Tokyo, says that sales of the Japan Company Handbook—the Bible of Japanese equity investment—have risen 40% in the past year, as new retail investors have piled into the market.

Monex's president, Oki Matsumoto, reckons that excessively cheap IPOs may eventually lead to trouble if small investors take leave of their senses. But buying cheap shares is generally more sensible than buying expensive ones. Ms Matsumoto argues that the IPO boom, and the small-cap rally in general, is helping to spur a much-needed transfer of savings from bank deposits into the equity market—and through commissions, of course, onto Monex's bottom line.

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Artists' pensions

Art for money's sake

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A new retirement scheme for artists, with a twist

FROM Vincent van Gogh to Henri Rousseau, artists have a long and honourable tradition of dying penniless. Their modern counterparts would rather not. This week MutualArt, a New York-based group of academics and museum experts, announced the start of the first-ever pension trust for visual artists. There is a twist: the contributions of those invited to join the scheme will be in the form of paintings and sculptures—20 works over 20 years. Their sale is supposed to provide each artist with three decades of retirement payouts.

The scheme certainly fills a gap. Artists are even worse off than actors, says Andras Szanto of the National Arts Journalism programme at Columbia University. Actors can get access to pensions through unions. Artists usually fall outside traditional retirement schemes because they rarely stay with a single gallery or dealer for very long. Most rely on teaching, day jobs or rich spouses in their dotage.

But investing in art is risky even if you know a thing or two about it. For every Jasper Johns, whose paintings of flags and symbols command top prices at auctions, there are dozens whose flags, for some reason, do not. The trusts' organisers are trying to reduce the risk of flops by allowing only promising artists—whose work is already selling—to join. Membership will be capped at 250 per trust (the first, in New York, has so far signed up 19). Each artist's payout will come half from the pooled sale of works, and half from sales of his own work, so nobody will get a free ride. Once the works are sold, the proceeds will be invested in securities chosen by the artists.

There are costs—the works must be stored or exhibited, new applicants to the trust need to be screened and so on. Dan Galai, an Israeli academic who helped found MutualArt, says all this should cost each trust about $250,000 a year. MutualArt will pay half such costs after taking a 20% cut from the sale of each work of art, which is where it makes its money.

British Rail famously invested some of its pension scheme in Old Masters and other classics in the 1970s. The art brought a decent enough return of 4% above inflation. But it sold its last work in 2003 in part because prices for art had become so high. To enjoy a prosperous old age, the artists signing up must hope they stay that way—and that one at least of their number gets more recognition than Van Gogh ever did before he died.

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Economics focus

Who put the shine into India?

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Was it Sonia Gandhi's economic lieutenant, her husband, or her mother-in-law?

Get article background

IF THE campaign hype of his opponents is to be believed, Manmohan Singh, India's new prime minister, is taking control of a country well on its way to becoming an economic power. If so, he is merely inheriting his own legacy. As finance minister in 1991, he seized on India's worst-ever debt crisis to push through its strongest-ever programme of economic reforms. In one epic budget speech in July 1991, he forcibly weaned the country off protectionism; waged a second freedom struggle against the licence-and-permit Raj that shackled India's businessmen; and opened the door, if only a bit, to foreign capital. A canny political operator, he also removed duties on newsprint, to keep editors on side, and excises on tiffin boxes (a sort of lunch box), to keep his wife happy. In the ten years after 1992, India seemed at last to be living up to its potential, growing at an average rate of 5.9%.

But Mr Singh ascends to power at a time when some economists are starting to question how decisive his reforms actually were. In a recent paper*, Dani Rodrik, of Harvard University and Arvind Subramanian, of the International Monetary Fund (IMF), argue that India's break with the past happened not in 1991 but in 1980. At 5.8%, the growth of the Indian economy in the ten years before the crisis was almost indistinguishable from its growth thereafter. At times, indeed, the economy did better.

This fact is awkward both for the champions of economic liberalisation, for whom India is an important success story, and for Mr Singh's own coalition. Not every Congress luminary, much less the Left Front parties that he must rely on for a parliamentary majority, is willing to champion Mr Singh's reforms. For some, they damaged Indian industry.

The swiftest riposte† to this line of thinking comes from Arvind Panagariya, an economist at the University of Columbia. The success of the 1980s was fitful and fragile, he says. Until 1988, growth was still quite slow; a late spurt, of 7.6% a year, between 1988 and 1991, flattered the average. But that growth proved unsustainable, driven by a bout of fiscal profligacy that soon brought India to the "edge of a precipice", as Mr Singh put it.

Mr Rodrik and Mr Subramanian are undeterred, however. The 1980s cannot simply be written off as an episode of "Keynesianism-run-amok", they say. Something significant and durable also happened to the supply side of the economy. Labour productivity, which grew by less than 0.9% per year in the 1970s, according to the IMF, grew by almost 3.7% per year in the 1980s—and it actually slowed in the 1990s.

But if the 1980s are to be counted a success, Mr Panagariya retorts, liberalisation should still get the credit. Mr Singh's desperate measures in 1991 were presaged by stealthier reforms under Rajiv Gandhi. After coming to power in 1984, he made it a little easier for businessmen to import foreign capital goods. He cut their taxes and subsidised their exports. He let some of them invest without a licence and others expand without inviting scrutiny from the monopolies watchdog. He admitted Suzuki into the Indian car market, albeit under onerous conditions, thus demonstrating to a grateful India that the history of car design did not end with the Morris Oxford, on which the country's famous Ambassador car is based. There is, then, no need for the revisionists to rewrite the story of India's liberalisation and resurgence, Mr Panagariya says: the hesitant reforms of the 1980s were a prelude to the bolder reforms of 1991.

But revisionists think there is more to it than that. The surge in Indian productivity predates Rajiv Gandhi's reforms by five years. Besides, those reforms do not really count as liberalisation. This is because they favoured incumbents rather than new entrants; producers, not consumers. In the 1970s,

India's businessmen were protected from foreign competition, but paralysed by government regulations. In the 1980s, the Gandhis freed businessmen but they did little to free markets.

According to Messrs Rodrik and Subramanian, India owes its take-off not to Mr Singh or Mr Gandhi, but to Indira Gandhi. When she returned to power in 1980, she stopped breathing populist fire, and sought instead to court the business constituency, whose political backing she craved. This shift in attitude, Messrs Rodrik and Subramanian claim, sent a powerful signal to India's cowed industrialists: India was now safe for capitalists to make money. The two economists show that the formal manufacturing sector, which is highly exposed to government interference, benefited most from this more supportive attitude, especially in states allied with the central government.

India's past two decades should teach economists to be humble, Mr Rodrik claims. They should not press countries to liberalise too far or too fast. To ignite growth, a country must fire the animal spirits of its industrialists. If a country's entrepreneurial fires burn dimly, wholesale liberalisation will not light them—it may indeed snuff them out. Policy tinkering, which clears the way for entrepreneurs to do better, without entirely changing the ground beneath them, might be more successful, he argues.

But as Mr Rodrik is the first to admit, igniting growth is one thing; sustaining it quite another. Sonia Gandhi's husband and his mother before him picked the lowest of low-hanging fruit. As it entered the 1980s, India could not have been more closely regulated, sheltered or taxed, nor the attitude of its political elites more inimical to enterprise. It is perhaps not surprising, then, that a country held so far beneath its potential would respond as vigorously as it did to a shift in the prevailing political climate. If, as Mr Rodrik believes, economists have been too quick to press their case, it is India's decades of wasted potential that best explains their impatience.

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* "From 'Hindu Growth' to Productivity Surge". NBER Working Paper No. 10376

† "India in the 1980s and 1990s: A Triumph of Reforms". IMF Working Paper No. WP/04/43

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Correction: Japan's GDP

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In our article last week on Japan's economy, we used seasonally adjusted GDP to calculate growth of 4.7% in the first quarter compared with the same quarter last year. We should have used unadjusted GDP, which grew 5.4%. The accompanying chart had the same error. Sorry

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Transits of Venus

Kiss of the goddess

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Venus will soon cross the face of the sun, and astronomers around the world will have a party

FOR about six hours on Tuesday June 8th, the sun will be fainter than usual. There is no need to panic. It will fade by a mere 0.1%. Only a diligent observer with the correct viewing equipment will notice something odd: there will be a small, dark dot on the disc of the sun, like a solitary pea on a yellow dinner plate.

The pea is Venus, passing directly between Earth and the sun for the first time since 1882. Insignificant though it may seem, this rare celestial event, a “transit of Venus”, was once thought a key to understanding the universe. Two and a half centuries ago, countries dispatched astronomers on risky and expensive expeditions to observe transits from far-flung points across the globe. By doing this, they hoped to make a precise measurement of the distance to the sun and thus acquire an accurate yardstick by which the distance to everything else in the solar system could be measured.

Though this quest fell short of its goal, it did produce a much better estimate of that distance. It also produced some interesting spin-offs, such as the invention of the movie camera and the discovery of Australia's Great Barrier Reef. In any case, astronomers—both professional and amateur—are eagerly awaiting the forthcoming transit so that they can commune with the shades of their predecessors. They have also thought up a new reason to study transits, one that may advance the modern quest to find life on other planets.

Timing is everything

In the planetary race around the sun, Venus occupies an inside track and so runs faster than Earth. Given the relative speeds of the two planets, one would expect transits to occur every 584 days, when Venus overtakes Earth. But transits are actually much rarer than that, because Venus's orbit around the sun is tipped relative to that of Earth. A special coincidence is therefore needed for all three bodies to line up.

The first person to work this out was Johannes Kepler, imperial mathematician to the Holy Roman

Empire, and a disciple of Copernicus's heliocentric theory of the solar system. Kepler used his own newly discovered laws of planetary motion to predict that a transit of Venus would happen in 1631. He was right, but nobody saw it. Kepler had a good excuse: he had died the year before. As for his colleagues, the transit was not visible from Europe, and nobody bothered to cross the globe to see it, even though Kepler had warned they would need to wait 130 years for the next one.

About that, he was wrong. In one of the more charming episodes in the history of astronomy, Jeremiah Horrocks, a youth from a village near Liverpool, England, out-calculated the imperial mathematician and found that another transit would happen in 1639. Transits often occur in eight-year pairs. Indeed, after this year's transit the next is in June 2012. This is because of a bit of numerology: when Earth has completed eight orbits, Venus has completed almost exactly 13, bringing everything back into nearly the same alignment. (Nearly, but not quite—which is why transits do not happen every eight years.) Horrocks worked out that, contrary to Kepler's calculations, such a pairing would indeed occur in the 1630s.

Horrocks and his friend William Crabtree were thus the only people who saw Venus's silhouette in 1639 (the painting above portrays Horrocks's observation). But when the next transit came around, in 1761, all the world's astronomers were ready. They wanted to put into practice an idea dreamed up by Edmond Halley, England's second Astronomer Royal, for measuring the scale of the solar system.

This was the most important astronomical problem of its day. Kepler's laws had enabled astronomers to map out much of the solar system, but everything was measured in terms of the distance from Earth to the sun, which was itself poorly known. In Kepler's day this distance, called the “astronomical unit”, was estimated to be about 8m kilometres. By Halley's time the consensus was 111m kilometres. But nobody really knew and, more pertinently, they knew that they did not know. What Halley did know, however, was that planetary transits could solve the problem.

Two planets sometimes transit between Earth and the sun: Mercury and Venus. When that happens, observers on different continents see them drift across different parts of the solar disc, for the same reason that theatre-goers in different seats whose views are obstructed by the same pillar nevertheless lose sight of different parts of the stage. By measuring this “parallax” effect (the easiest way being to compare the duration of the transit in different places), the distance to the planet in question should be revealed. From that, using Kepler's laws, the astronomical unit, and all the other distances in the solar system can easily be worked out.

In practice, Mercury is too close to the sun to give a useful parallax, so Halley pinned his hopes on Venus. His calculations suggested that by timing Venus's transit from widely separated points on Earth, the astronomical unit could, using the clocks of the day, be measured to within one part in 500. Halley urged young astronomers to prepare for the next transit of Venus, “that sight which is by far the noblest astronomy affords”. He knew he would not live long enough to see it.

The race to Venus

What followed was the 18th-century equivalent of the space race. Wealthy nations took up the challenge and competed for scientific prestige. The rivalry was especially intense between Britain and France, which were engaged in the Seven Years War at the time of the transit of 1761.

What followed was the 18th-century equivalent of the space race

Among the British expeditions was that of Charles Mason and Jeremiah Dixon, who were sent to Sumatra (and who would later achieve immortality through the name of a line they surveyed between the northern and southern American colonies). Shortly after embarking from Plymouth, eleven of their shipmates were killed during an attack by the French. Mason and Dixon wanted to cancel the voyage, but in a famously nasty note, their Royal Society sponsors warned this would “bring an indelible Scandal upon their Character, and probably end in their utter Ruin”. Faced with this, they carried on. Unfortunately their destination was captured by the French before they arrived. They ended up observing the transit from Cape Town instead.

The French had their share of troubles, too. The most pathetic of these were suffered by Guillaume Joseph Hyacinthe Jean-Baptiste Le Gentil de la Galaisiere. He was aiming for Pondicherry, a French colony in India, but he learned before arriving that it had been captured by the British. When the transit occurred, he was stuck on a pitching ship in an imprecisely known location, rendering his observations worthless. Undeterred, he decided to wait for the 1769 transit. He spent eight years on various Indian

Ocean islands before making his way to Pondicherry, which had by then been returned to the French. On the day of the transit, however, it was cloudy. He then contracted dysentery, was shipwrecked, and finally returned home to find his estate looted.

By contrast, the weather was splendid in Tahiti (not then a French territory), where Venus's path in 1769 was timed by the party of James Cook. The transit had been the main impetus for Cook's first voyage of discovery. Once this official mission was accomplished, Cook explored the south Pacific, achieving, among other things, the first accurate maps of New Zealand and the first European awareness of Australia's Great Barrier Reef (this was obtained the hard way, by ramming into it and nearly getting wrecked).

In addition to these trials and tribulations, the transit quests of 1761 and 1769 were confounded by an unexpected phenomenon. At the crucial moments—the beginning and end of the transit, when Venus's shadow touches the rim of the sun's disc—the shadow's shape changes. It pinches off the rim like an oil drop, rather than appearing as a crisp circle. This “black-drop effect” makes it hard to say exactly when the transit starts and stops, spoiling the precision of the method.

The upshot, when all the results were analysed, was a value for the astronomical unit of 153m kilometres, plus or minus 1m kilometres. This was a much better estimate of the true value (now known to be 149.6m kilometres), but it was still a disappointment, because the uncertainty around the figure was far greater than Halley had hoped for.

Point and shoot

When the next pair of transits came around, in 1874 and 1882, it was hoped the new technology of photography would fix the black-drop problem by creating permanent objective records. But for the purpose of timing the transit, what was really needed was a sequence of pictures, rather than just a single picture, and it was cumbersome to keep swapping the photographic plates in a camera, and setting up new exposures.

This motivated Pierre Janssen, a French astronomer, to invent a multi-exposure camera. Instead of having an ordinary shutter, its opening was covered by a rotating wheel with slots in it, which admitted light at regular intervals. The light was registered on a single daguerreotype plate that slid forward after each exposure, under the control of a pendulum clock. The result was a series of exposures running across the plate. Because the mechanism was similar to a Colt revolver, Janssen called it the *revolver photographique*.

Unfortunately, photography did nothing to cure the black-drop effect. Venus looked just as smeared out in print as it appeared to the eye. Even the results from Janssen's *revolver* were disappointing, although the contraption did influence Etienne Jules Marey and the Lumière brothers, and in that sense was the direct ancestor of the movie camera.

The 1882 transit was a public sensation

By the time of the 1882 transit, many astronomers despaired of using the event to create a celestial yardstick. Other methods, such as measuring the parallax of Mars against the background of fixed stars, had been devised to measure the astronomical unit. Nevertheless, the 1882 transit was a public sensation. Unlike that of 1874, it was visible in both Europe and the United States. Thomas Hardy wrote a novel about it. John Philip Sousa wrote a bouncy march to mark the occasion. Telescopes were set up in town squares and millions of people had a look. After all, it was the last chance to see a transit of Venus until the 21st century...

What goes around, comes around

Today, thanks to radar and interplanetary spacecraft, the astronomical unit is known with a precision of one part in 50 billion. For measurement purposes, the transit of Venus is as obsolete as a sextant. Instead, much of the interest in the forthcoming transit is educational or sentimental. Universities, museums and research institutes are holding events to allow people to view the transit safely. The European Southern Observatory is organising a public effort to measure the astronomical unit the old fashioned way, just for fun.

There is also historical research to be done: for instance, what causes that meddlesome black-drop effect? Many explanations have been proposed. Earlier this year, one of them was ruled out in a paper written by Glenn Schneider, of the University of Arizona, and two colleagues. They proved that it cannot, as some had suspected, be an effect of Venus's atmosphere. This was because they saw the black-drop effect in a transit of Mercury, a planet that has no atmosphere.

They concluded that the black drop results from blurring of the image (whether from Earth's atmosphere, or inevitable imperfections of the telescope) combined with the way that the disc of the sun fades in brightness towards its rim. Jay Pasachoff, an astronomer at Williams College, in Massachusetts, and a member of Dr Schneider's team, will be observing the transit of Venus from Thessaloniki, in Greece, to test this theory.

Transits, then, are old astronomical news. But they are also one of astronomy's hottest topics. These hot transits are those of planets in other solar systems. And, curiously, the forthcoming transit of Venus may have a role to play here, too.

Astronomers have found scores of planets around other stars, mainly by searching for stars that wobble back-and-forth due to the gravitational pull of an orbiting planet. The problem with this indirect technique is that it does not tell you much about the planet you have discovered. In particular, that planet's diameter and composition remain unknown.

But if the planet's orbit is nearly edge-on, as viewed from Earth, then the planet will transit its parent star. Though even the nearest star is too far away for a planet drifting across its disc to be seen, astronomers can detect the drop in starlight caused by the obstruction. From the size of this drop, they can deduce the diameter of the planet. This was first done in 2000, when a Jupiter-sized planet was discovered around a star named HD 209458.

The next step is to figure out what is in the planet's atmosphere. This can be done by measuring the transit in different colours. Each type of atom or molecule absorbs particular colours. Sodium, for example, is fond of a certain orange-yellow hue. If there is sodium in the atmosphere, then there will be a little extra blockage of that colour during a transit.

This was actually seen for HD 209458, but the amount of sodium observed was less than predicted by models of planetary atmospheres. This could be an important discovery, or it could be the fault of the models. So it would be nice to test those models by observing a planet whose atmosphere is already well known: Venus.

Sara Seager, an astronomer at the Carnegie Institute of Washington, DC, is co-ordinating an effort to use Venus this way. She has calculated the effects that Venus's atmosphere should have on the transit, and observers around the world will be looking for them. Dan Kiselman, a Swedish astronomer, will use a telescope in the Canary Islands to look for carbon dioxide. In Arizona, Dr Schneider will attempt to find sulphur. His approach is to observe the transit in moonlight (which is reflected sunlight) rather than watching the sun itself. This corresponds more closely to the case of a planet around another star, in which the stellar disc cannot be resolved.

There is more at stake here than just tidying up theoretical models. Transits are the best available way to search for life on planets beyond Earth's solar system. One thing that life does on Earth is to throw a lot of oxygen into the atmosphere. Oxygen is very reactive; it would disappear in a few thousand years if it were not for plants constantly replenishing it. So if oxygen were found in the atmosphere of an alien world, the discovery would jump-start the field of exobiology, the (currently hypothetical) study of extraterrestrial life.

Transits are the best available way to search for life on planets beyond Earth's solar system

But here, a note of caution is needed. Mikhail Lomonosov, a Russian scientist, discovered the dense atmosphere of Venus during the transit of 1761, by noting a thin luminous ring around the black circle of Venus's surface. Such an atmosphere must be full of water vapour, he wrote, and if there is water, why not vegetation? For a long time, Venus was thought of as a jungle planet.

Now it is known that Venusian life is unlikely. The planet's temperature is 450°C and the clouds rain with sulphuric acid. If you are fortunate enough to witness the transit of Venus, remember that the innocent-looking black dot, a planet that has been considered the goddess of love, is actually fire and brimstone, the best known approximation to hell.

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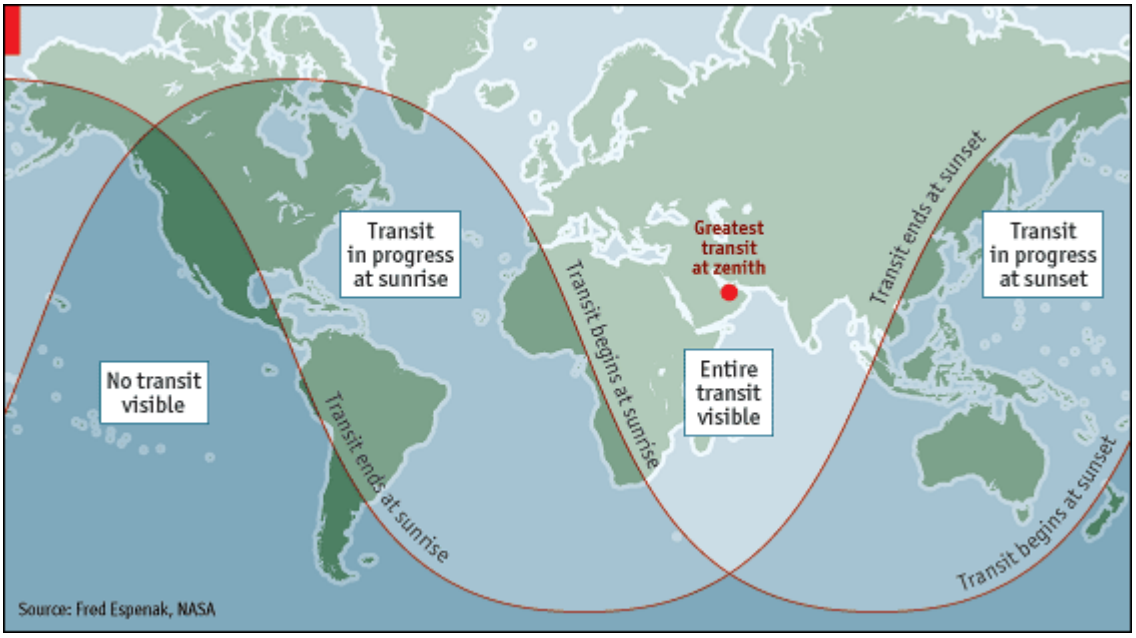
Where to see it

May 27th 2004
From The Economist print edition



The transit of Venus happens on June 8th from about 05.13 to 11.26 GMT. Anyone who can see the sun between those times can see the event. This map shows the daylight part of Earth at the beginning and end of the transit. Europe and Africa can see the whole thing, as can most of Asia. East Asia and Australia will miss the end, and the Americas will miss the beginning. As always, looking straight at the sun is a bad idea and may cause permanent eye damage. Use an indirect projection technique, or a specially designed filter, such as those employed to watch solar eclipses. If you miss it, you will need to wait until 2012 for another chance, and after that until 2117.

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Athens

Bearing the heat of the Olympic torch

May 27th 2004
From The Economist print edition

Corbis

The return of the Olympic Games to Athens recalls the city's special role in their history and development

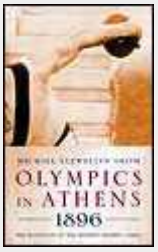
IF THERE is a single day when the modern Olympic movement can be said to have taken root, it must be April 10th 1896, when a Greek farm boy, Spyridon Louis, won the marathon in the first Olympic Games of modern times. At about 5 o'clock in the afternoon, the sweat-stained, dark-haired young man, with no record of sporting prowess, came panting into the Athens stadium, a brand new replica of an ancient arena, after pounding 25 miles through his native Attica in just under three hours. (The current length of the marathon—26 miles 385 yards—was not set until the games of 1908.)

The crowd that day went wild. Two princes of the Greek royal family ran down to join Louis on his final lap (see above). Baron Pierre de Coubertin, the Frenchman who masterminded the revival of the ancient games, said the Louis victory was "one of the most extraordinary sights" of his life; it convinced him that "spiritual forces" have a role in sport. For the baron, the marathon result was a vindication of his long struggle to prove that amateur sport, as practised in ancient Greece, could be an inspiration for humanity in all ages, and a force for peace. He also felt justified in his support of the modern Greek kingdom, a new polity struggling to live up to its glorious past, as the starting-point for his revival.

But within a few months—as Michael Llewellyn Smith points out in his clear, scholarly and readable account—the love affair between the Frenchman and his Greek hosts had cooled. The Greeks wanted the revived Olympics to stay on home turf, while the baron believed strongly in rotating the venue. He was sharply attacked in the Athenian press.

The 1896 games had another unhappy aftermath: less than a year later, amid an atmosphere of popular jingoism, Greece embarked on a fresh war with the

Olympics in Athens 1896: The Invention of the Modern Olympic Games
By Michael Llewellyn Smith



Profile Books; 256 pages; £16.99

Buy it at
Amazon.co.uk

Wrestling with the Ancients: Modern Greek Identity and the Olympics
By Alexander Kitroeff

Ottoman empire; the princes who had jogged along with Louis became military commanders. Within a few weeks, Greece's army had been routed.

As for the baron, he was undeterred by his falling out with the Greeks and went on to organise games in Paris (in 1900) and St Louis (in 1904)—which were not so successful. As it turned out, it was another contest in Athens (in 1906, but without the status of a fully fledged Olympics) that reconfirmed the games as a Greek-inspired, but peripatetic, sports event. Finally, Greece and the baron made peace; in 1938 his heart was buried in ancient Olympia, the loveliest of all classical sites.

The Frenchman was not the first, nor the last, outsider to feel both the allure and the vindictive sting of a modern Greece that manages in an uncanny way to be much more, and much less, than the sum of its parts. It has never been hard to see the shortcomings, and at times the absurdities, of the neo-Hellenic project: the revival of classical glories in the shape of a smallish modern state whose people have by turns been inspired and depressed by their awesome heritage. Indeed, native Greek wits have excelled at satirising *progonoplixia*, ancestor worship.

That past is often evoked in a prickly and defensive way by modern Greeks when their behaviour (individually or collectively) is at its least glorious. As Alexander Kitroeff shows in his clear, rigorous account of Greece's recent dealings with the Olympic movement, the 1967-74 military regime blithely promoted the “Olympic ideals” of classical times even as it crushed free speech and democracy.

A similar point is well made by Sofka Zinovieff in her witty and engaging account of life in Athens as the Anglo-Russian spouse of a senior public servant. She had embraced Greece, and its language, as a student, but when she later moved back there, with her Greek husband and two daughters, she found much to dismay her—such as the rigid education system and the bigotry towards immigrants. However, she never lost her ability to be overwhelmed by small things—like the 13-year-old boy, a schoolmate of her daughters, who moves her deeply with songs full of atavistic yearning. At some points—for example, in describing the funeral of her father-in-law, a teacher—the pitch of her narrative rises from that of personal memoir and catches something more elevated.

George Sarrinikolaou, a Greek-born journalist, is no less personal in his tale of rediscovering Athens. Having lived there until he was ten, he retains a keen eye for its flaws—including its intolerance of outsiders, whose ranks he (by virtue of emigrating to America) is deemed to have joined. More harshly than Ms Zinovieff, he portrays corrupt doctors, primitive male attitudes to women, and priests who rattle through their prayers. And he is not writing with a foreigner's condescension; he is still insider enough to empathise with George Seferis, the poet who wrote that “wherever I travel, Greece wounds me”.

Greekworks.com; 276 pages; $32

Buy it at
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Eurydice Street: A Place in Athens
By Sofka Zinovieff

Granta; 276 pages; £14.99

Buy it at
Amazon.co.uk

Facing Athens: Encounters with the Modern City
By George Sarrinikolaou

North Point Press; 144 pages; $18

Buy it at
Amazon.com
Amazon.co.uk

Between now and August, as the Athens Olympic Games refocus world attention on modern Greece, millions of outsiders will come face-to-face with that nation, with all its flaws and enchantments. Will they find it a prickly and defensive place, or an alluring one, full of mysterious surprises? Almost certainly, both.

Olympics in Athens 1896: The Invention of the Modern Olympic Games.
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About sponsorship

Forthcoming movies

Harry Potter and the familiar formulae

May 27th 2004 | LOS ANGELES
From The Economist print edition

Is Hollywood's cycle of sequels and repeats never-ending?

Harry, haven't we been here before?

THERE'S not much new under the Hollywood sun these days, it seems. This summer, more than usual, Tinseltown is putting its faith in remakes of classic oldies and sequels of well-tried formulae. “Harry Potter and the Prisoner of Azkaban” (the third in the series) is bursting on to the world's screens this week and next, just after the launch at the Cannes film festival of “Shrek 2” and “The Ladykillers”, a remake by the directors (and brothers) Joel and Ethan Coen of a 1950s British classic starring Sir Alec Guinness.

Other remakes in the pipeline include “Around the World in 80 Days”. This aims to differ from the 1956 original, produced by Mike Todd, by eschewing a star-studded cast—apart from cameo performances by John Cleese and Arnold Schwarzenegger—and by relying on Jackie Chan's acrobatic skills to give it a new twist. Posters already up for Frank Oz's star-studded remake of “The Stepford Wives” show Nicole Kidman holding her finger to her lips under the words, “The wives of Stepford have a secret”. But how much of a secret can they possibly have when the original film (directed by Bryan Forbes in 1974) has been shown on television countless times, and has even generated a TV sequel, “The Stepford Husbands”?

Jonathan Demme, whose remake of “Charade” failed at the box office, is trying again with a new version of “The Manchurian Candidate”, starring Denzel Washington. In this case the remake may stand a better chance commercially because the 1962 original (directed by John Frankenheimer) disappeared from view for a while. After President Kennedy's assassination the producers withdrew it from distribution until the 1980s.

Other sequels this summer, besides “Shrek 2” and the new Harry Potter, include “Spider-Man 2”, on which six screenwriters, including the novelist Michael Chabon, laboured to produce the kind of superhero soap-opera complications that Spider-Man's creator, Stan Lee, used to crank out every month. Not all sequels in the pipeline, however, are high-profile, big-budget affairs. “Before Sunset” is Richard Linklater's follow-up to “Before Sunrise” in which characters originally played by Ethan Hawke and Julie Delpy are reunited nine years on. And even Jim Jarmusch, an icon among independent film-makers, has caught the bug: his latest feature film, “Coffee and Cigarettes”, in which Cate Blanchett plays two roles, is really a series of short films, some of them several years old and already familiar to Mr Jarmusch's fans.

Other forthcoming movies are clearly hoping to launch franchises and cash in on sequels galore: “I, Robot” is based on Isaac Asimov's classic science-fiction stories, while “Catwoman” has Halle Berry in low-cut leather. One new franchise has probably been launched already this year with the worldwide success of “Van Helsing”, the story of a sort of Victorian James Bond played by Hugh Jackman.

The film itself, though, is hardly original. It largely recycles “House of Dracula” (1945), itself the last gasp of Universal Studio's great horror movies. In it, Frankenstein's monster, Dracula and the Wolfman were all combined in the hope that their joint pulling power might be enough to make one more successful movie. “Van Helsing” throws in Mr Hyde for good measure, but its success and that of “Shrek 2”, which made an extraordinary $129m in its first week, suggest that Hollywood is not about to abandon what it still sees as a profitable strategy. After all, the commercially astute Steven Spielberg will probably follow “The Terminal”, his fact-based drama opening in August, with yet another sequel to “Raiders of the Lost Ark”.

For the moment, Hollywood scriptwriters are clearly following the practice of Samuel Johnson. The 18th-century lexicographer once said that whenever a friend told him about a new book, he would go home and read an old one.

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About sponsorship

German fiction

New tales to tell

May 27th 2004
From The Economist print edition

Shaking off the past

MUCH to their frustration, few contemporary German authors see their work translated into English. In 2002, the translation rights for 278 German books were sold to English-language publishers; of those, only 28 were fiction. Furthermore, buying the translation rights is no guarantee that the book will actually be translated. By contrast, 3,782 translations from English into German were published in Germany in 2002, 70% of all translations published in the country that year. Names such as Dan Brown, John Grisham and Paul Auster feature high on current German bestseller lists.

The big barrier facing German books in both America and Britain is the fact that few editors there can read the language, and few German publishers are prepared to invest in sample translations. So the number of American and British publishers who can judge the quality of new German books is limited.

One author to have overcome this hurdle is Judith Hermann, a 33-year-old Berliner. Her prize-winning first book of short stories, “Summer House, Later”, has been an unexpected literary phenomenon in her own country, selling 250,000 copies so far, way beyond the forecast readership for such a literary work. Her new collection of stories, “Nothing but Ghosts”, is scheduled to be published in English by Fourth Estate next year.

Ms Hermann's languid, elegant stories set in 1990s Berlin have helped to revive a dwindling readership for German fiction after decades dominated by post-war moralists such as Günter Grass and Heinrich Böll. “We're not so burdened by the past,” explains Ms Hermann. “For us, *Nullpunkt* [point zero] was the fall of the Berlin Wall.” Rather than wrestling with ponderous thoughts and ideologies, her bohemian, artsy protagonists focus on an elusive happiness, their disoriented lives punctuated by moments of drama.

Ms Hermann shows a keen interest in telling stories. So does Ingo Schulze, an East German who, in his bestselling “Simple Stories”, writes with detached humour about humble lives turned upside down by the political disintegration of East Germany. Born in 1962, the engaging Mr Schulze is bracketed with a new wave of writers whose fresh, unembellished style and character-driven plots (called the *neue lesbarkeit*, the new readability), all translate well into English—unlike the experimental writing beloved of German writers in the 1970s and 1980s.

Mr Schulze first drew attention at readings in the bars and clubs of eastern Berlin's Prenzlauer Berg. So too did Wladimir Kaminer, a Russian émigré admired by young Germans for his stories peopled with immigrant Berliners who lead exotic lives filled with an excitement that Ms Hermann's characters find so hard to attain.

Standing slightly apart is Elke Schmitter, a critic for the weekly magazine *Der Spiegel* whose first novel, “Mrs Sartoris”, came out in English last year. Ms Schmitter centres her story on a woman who—like Flaubert's Madame Bovary—pins unrealistic hopes of fulfilment and escape from a dreary marriage on an affair with the local womaniser. Although it is a detailed portrait of life in small-town Germany in the early 1960s, Ms Schmitter's novel remains untouched by the moral concerns of the grandees of German literature or, indeed, of more recent offerings by writers such as Bernard Schlink, author of “The Reader”.

Even when history plays a crucial role, as in “Lost”, Hans Ulrich Treichel's little gem, it is more a legacy of the past lived in the present. The narrator, an eight-year-old boy, describes a childhood overshadowed by fear that his parents will succeed in finding their first-born son, lost when they fled from the approaching Russian army at the end of the second world war. Filled with pathos mixed with comic observations about the discrepancy between the little boy's view and that of his parents, the story stands

full square among the new generation of German fiction.

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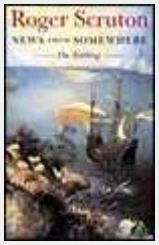
The English countryside

Cloud cuckoo land?

May 27th 2004
From The Economist print edition

ROGER SCRUTON is a conservative, but not the true-blue kind: he's too green for that. His turquoise Toryism, keen on rural traditions and against money-grubbing modernity, chimes with many people's love for the countryside as a source of cultural, aesthetic and spiritual solace. This book tells the story of how a town-bred academic philosopher settles in rural Wiltshire, a county some 80 miles (130 kilometres) to the west of London, where he dabbles in farming while he learns to understand the society in which he has planted himself.

News From Somewhere: On Settling
By Roger Scruton



Continuum; 177 pages; £16.99

Buy it at Amazon.co.uk

It is a lovely read. Mr Scruton is an accomplished stylist and his vignettes of rural life are sparklingly written, affectionate without being cloying. He starts with the history of the land, shaped by centuries of cultivation; then he describes the people, with their quirks, talents, feuds and (sometimes) failings. Next come the animals, such as the beloved, disciplined working dogs, a world away from the useless pampered pets of city life. He rails against the bureaucratisation of livestock farming: lists, registers, rules and artificial standards, all of which waste time and money, and increase both human and animal suffering. Then there is a chapter on his own domestic life: television-free (the front panel of the cast-iron stove serves as an imaginary substitute) and with shops that stock food far less exciting than that on offer to the benighted denizens of the metropolis. Sadly, Mr Scruton does not mention one of the striking features of his bucolic lifestyle: that guests to his farmhouse are cordially requested not to speak before sundown.

Mr Scruton is a philosopher by profession, and an erudite and much-travelled man. He wears his learning lightly, but the book is peppered with interesting allusions and references. Hegel's and Marx's theory of alienation rubs intellectual shoulders with John Ruskin and William Morris. The references to German, and particularly Czech, rural traditions are an echo (modestly unmentioned) of Mr Scruton's mission in an earlier life: helping to subvert the communist grip on his beloved *Mitteleuropa*.

The central theme of the book is that the ambiguities permitted and demanded by country life are a source of freedom. Health and safety rules; insurance liability; intrusive bureaucrats with their clipboards and procedures—all these are weaker in the countryside, partly through distance, partly through poverty, and partly through habit. Country-dwellers, particularly farmers, must be polymaths, welding one day, rigging an electric fence the next. Friends and neighbours are relied upon in a way that is almost inconceivable to people who live in cities, where every service comes with a price-tag.

It is certainly true that distorted market incentives have brought big changes to the countryside: subsidising and protecting agribusiness has hiked land prices, hurt consumers and penalised farmers who are good at growing things but not at filling forms. However, Mr Scruton's romantic view of rural life is profoundly inconsistent. He laments the lack of cheap housing, which means that low-paid rural workers live in the town and commute to the countryside. Yet the solution to that problem is to build more rural houses. Mr Scruton skirts around this issue: the problem with new houses, he maintains, is not that they are new, but that being modern they will be ugly. And with that he is off, within a page, to the more comfortable topic of hedgerows and their history.

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By Roger Scruton.
Continuum; 177 pages; £16.99

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About sponsorship

Collective intelligence

When the many know best

May 27th 2004
From The Economist print edition

IN THE era of the expert, James Surowiecki's book puts forward a paradox: often, the multitude knows better than the wise individual. He has written a hymn of praise to the judgment of the many, adducing case after surprising case where the amalgamated views of a crowd reach a more accurate conclusion than the single expert does. “Under the right circumstances,” argues the author, who writes a regular financial column for the *New Yorker*, “groups are remarkably intelligent, and are often smarter than the smartest people in them.”

Take, for instance, that corny game show, “Who Wants To Be A Millionaire?” Across a large sample of shows, those contestants who took the option to call an expert for an answer got it right almost 65% of the time. But the ones who asked the studio audience—hardly a gathering of gurus—did far better; they got it right 91% of the time. And that, it seems, was no fluke. Get a group to guess something—the number of jellybeans in a jar—and only a small minority of individuals will be closer to the correct answer than the average estimate. “With most things, the average is mediocrity,” says Mr Surowiecki. “With collective intelligence, it's excellence. You could say it's as if we've been programmed to be collectively smart.”

To make good guesses, crowds need certain characteristics. The crowd that bet the house on the internet bubble clearly lacked them; as do lynch mobs and drivers stuck in traffic jams. Mr Surowiecki acknowledges as much. When people take decisions one after another, instead of simultaneously, a problem known as “cascading” tends to persuade them to follow the herd, rather than their independent judgment. With traffic jams, the problem is inadequate information: cars on crowded roads cannot see the big picture that might allow them to make good decisions.

The two ultimate tests of the wisdom of crowds are the market and democracy. Mr Surowiecki's faith in crowds leads him to argue for decentralised decision-making in companies. “Any major decision should be taken by as large a group of managers as is logistically feasible,” he argues—admitting that this is a suggestion “so radical as to seem ludicrous”.

Democracy gives him more trouble, perhaps because he can't quite believe that American voters make sensible choices. But ultimately he is on the side of Thomas Jefferson, who said, “State a moral case to a ploughman and a professor. The former will decide it as well and often better than the latter because he has not been led astray by artificial rules.” A crowd of ploughpersons is thus wiser than a plurality of professors.

The Wisdom of Crowds: Why the Many Are Smarter Than the Few and How Collective Wisdom Shapes Business, Economies, Societies and Nations.
By James Surowiecki.
Doubleday; 320 pages; $24.95.
Little, Brown; £16.99

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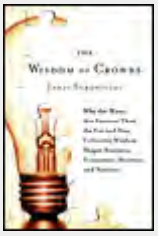

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About sponsorship

New fiction

Well-woven quilt

May 27th 2004
From The Economist print edition

NICHOLAS RINALDI'S third novel tells the intertwined stories of a dozen or so residents of a posh Manhattan apartment building. The building is called Echo Terrace, signalling the book's main themes of memory and shared experience. At the centre of it is Farro Fescu, Echo Terrace's Romanian concierge. “He feels the pulse, the heartbeat, as if the building were a living, breathing thing—as if there are wires running from his fingertips to every room.” It is through the wonderfully nosy concierge that Mr Rinaldi introduces other residents, each with a story to tell.

Between Two Rivers
By Nicholas Rinaldi

HarperCollins; 448 pages; $24.95. To be published in Britain by Bantam Press in September

Buy it at
Amazon.com
Amazon.co.uk

They include Theo Tattafruge, an Egyptian-born plastic surgeon who specialises in sex-change operations, and Karl Vogel, a former Luftwaffe ace. There is Muhta Saad, a slimy Iraqi spice merchant, and, high up in the penthouse, Harry Falcon, a frozen-foods magnate dying of cancer. Harry curses his failure to buy the Colgate building, which he sees across the Hudson River and which, with its huge neon clockface, seems to mock him on his deathbed.

One of Mr Rinaldi's most sympathetic characters is a quiltmaker called Maggie Sowle. For years Maggie has toiled away unrecognised and unappreciated. But at last her quilts have begun to be seen as works of art. Important commissions are coming in and her quilts are sold in trendy downtown galleries. Mr Rinaldi has put his novel together as a kind of quilt too. The whole thing is composed of fragments, all of which have their own provenance and texture. At first the relation between bits seems arbitrary, but as the novel progresses a larger pattern emerges.

Though occasionally florid and sentimental, “Between Two Rivers” is a rich, ambitious book. Mr Rinaldi conjures a cosmopolitan New York that is violent and tender, and he stages some excellent set-pieces, particularly the closing chapters which dramatise the 2001 attack on the World Trade Centre. Above all he shows himself alive to the subtle bonds that develop between people who, by choice or by chance, happen to live together, and that make life, and novels like this one, more interesting.

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About sponsorship

Obituary

William Hinton

May 27th 2004
From The Economist print edition

Photo courtesy of Carma Hinton

William Hinton, a close observer of Mao's China, died on May 15th, aged 85

WHEN William Hinton first came to the village of Long Bow, in the high plateau lands of northern China, snow lay on the ground. But the peasant hut in which he was welcomed had no door and no fire. Torn paper filled the windows, and the mud walls were thickly daubed with creosote. This, and the stink of garlic and tobacco from the inmates, almost suffocated him. Henceforth, the smell of poor China was to permeate his life.

It was March 1948, and Long Bow was in “liberated” territory, where communist militiamen under Mao Zedong's orders were confiscating landlords' property and sharing it among the peasants. The process was known as *fanshen*, “overturning of the body”. Wang Wenping, the peasant in the hut, counted himself lucky that *fanshen* had brought him three and a half acres and food to eat. He was discontented that a further share-out had not brought him a cart or a chest he had liked, but only a table and a pair of old trousers. The best things had gone to the cadres.

Wang's disappointment took Mr Hinton aback. He himself was an ardent supporter of the Chinese revolution and its drive to empower the rural masses. His love affair with China had been growing ever since, at the age of 17 and about to go up to Harvard, he had worked his passage round the Far East by washing dishes. His reading of Edgar Snow's “Red Star over China” in 1942 had turned him from a dreamy pacifist into a committed Marxist. And here was his chance of action.

He had come to Long Bow, leaving his English teaching at the Northern University in Shaanxi province, specifically to watch the peasants throw off the yoke of their abusive landlords, put away superstition, learn to read, and embrace a primitive form of democracy. He had hoped to be at the forefront of revolutionary movements in the cities. But this cold backwater would have to do.

His days with the land-reform work team were spent mostly in an Orwellian round of meetings. At any and every opportunity, weary labourers would be summoned by megaphone to attend. *Fanshen* required

the old ruling magistrates to be replaced by an elected council of peasants. Revolutionary purity also required that landlords and errant party members should be brought before the council to criticise and abase themselves. But men relieved of their fetters do not instantly become reasonable. In Long Bow, a man who had stolen a steamed bun from the communal lunch was stripped of his citizenship. As for the landlords, who had idled and profited as their tenants slaved and starved, they were sometimes whipped with belts or killed on the spot.

Mr Hinton remained an optimist. Despite these flashes of revenge, and despite the privations—the lice, the hard brick beds, the corn gruel eaten from unwashed bowls—he could see the village improving as the feudal lock was broken. He described the main square jammed with pedlars' carts piled high with dried persimmons, pigs and wool, and the pedlars' tales of production achievements from other outflung places. This had not happened, he believed, because the peasants now had some land of their own; he could never attach much importance to ownership. Party organisation had done this.

On the blacklist

In 1953, still glowing, he left China, carrying on his back more than 1,000 pages of notes. A revolution had never been observed as minutely as this, from the ground up. An American had never had such access to the deepest thoughts of the Chinese peasantry. But the FBI was not pleased to see him. His papers were confiscated (he had, as a precaution, eaten his Chinese exit visa), and the Senate Subcommittee on Internal Security blacklisted him. Forbidden to take a job, he became a Pennsylvania farmer. Intent on his justifications of Maoism, he struggled for years to find a publisher for the book, “Fanshen”, that made his reputation. Only the Marxist *Monthly Review* would touch it, until it became a bestseller.

Time did little to alter his views. Conservatives often called him naive, especially for his dismissal of the famine that killed perhaps 40m Chinese between 1959 and 1961. Was this not the direct result of his *fanshen*? Mr Hinton disputed it; there had been failures, certainly, but famine had been frequent before the revolution, and bad weather had not helped.

Once restored to grace at home, he was allowed back to China. He visited Long Bow often, admiring the new cement mill and the coking plant and ploughing his own savings into local projects. Their grain yields, he told villagers, were better than he had ever managed in Pennsylvania.

At the age of 80, he was still assuring audiences that Mao's land reforms remained the most solid and useful model for third-world countries mired in poverty. He could not bear Deng Xiaoping's decision in the 1980s to de-collectivise the farms. And though he argued from sentiment, mourning the replacement of the big communal fields with tiny leased plots, he had a point. Without some consolidation of land, Chinese farming cannot be efficient. And farmers themselves, still lacking tenure of the fields they till, have once more become second-class citizens in the surging new China.

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Overview

May 27th 2004
From The Economist print edition

Worries about petrol prices, instability in Iraq and the prospect of higher interest rates may be taking their toll on the mood of **American consumers**. Despite recent improvements in economic growth and employment, consumer confidence was little changed in May, according to the Conference Board. Its index rose slightly to 93.2 from 93.0 in April. Respondents' opinions of current conditions fell, while their future expectations rose, though not by much.

Sales of existing **American homes** rose by 2.5% to near-record highs in April. New home sales, by contrast, fell unexpectedly by 11.8% in April.

Euro-area economic growth continues to be sluggish. According to EuroCOIN, a monthly economic indicator published by Britain's Centre for Economic Policy Research, the euro area's economy saw hardly any change in April from its weak growth rate in March.

Higher oil prices caused **German** consumer-price inflation to rise in the year to May to 2.1%, its highest rate in over two years. The Ifo index of German business confidence fell slightly in May. Business confidence also fell in neighbouring **Belgium**.

France's economy, by contrast, is showing signs of optimism: consumer spending rose by 1.5% in April.

Consumer prices in **Canada** rose by 1.6% in the year to April.

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Output, demand and jobs

May 27th 2004
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2004	2005	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 4.0	Q4	+ 5.5	+ 3.9	+ 3.1	– 0.9	Q4	+ 7.7	Q1	5.6	Apr	6.2
Austria	+ 0.8	Q4	+ 0.4	+ 1.6	+ 2.0	+ 2.5	Feb	– 1.0	Feb	4.5	Apr	4.3
Belgium	+ 1.9	Q1	+ 2.4	+ 1.9	+ 1.9	+ 5.4	Mar	– 0.9	Feb	12.4	Apr†	11.6
Britain	+ 3.0	Q1	+ 2.6	+ 3.2	+ 2.7	– 0.6	Mar	+ 6.1	Apr	4.7	Feb††	5.1
Canada	+ 1.6	Q4	+ 3.8	+ 2.7	+ 3.3	+ 0.8	Feb	+ 2.5	Feb	7.3	Apr	7.6
Denmark	+ 1.0	Q4	+ 2.4	+ 1.9	+ 2.2	+ 0.7	Mar	+ 5.3	Feb	6.4	Mar	5.8
France	+ 1.7	Q1	+ 3.1	+ 1.8	+ 2.1	+ 1.5	Mar	+ 2.9	Mar	9.8	Mar	9.6
Germany	+ 1.5	Q1	+ 1.8	+ 1.4	+ 1.6	+ 0.5	Mar	– 0.7	Mar	10.5	Apr§	10.7
Italy	+ 0.8	Q1	+ 1.7	+ 1.0	+ 1.7	– 0.6	Mar	– 2.1	Feb	8.5	Jan	8.9
Japan	+ 5.4	Q1	+ 5.6	+ 3.3	+ 2.0	+ 8.3	Mar	– 2.2	Mar	4.7	Mar	5.4
Netherlands	+ 0.8	Q1	+ 1.7	+ 0.8	+ 1.6	– 1.0	Mar	– 4.6	Feb‡	6.4	Apr**	4.9
Spain	+ 2.8	Q1	+ 2.4	+ 2.8	+ 2.9	+ 8.0	Mar	+ 4.5	Mar	11.1	Mar	11.4
Sweden	+ 1.9	Q4	+ 2.2	+ 2.4	+ 2.4	+ 2.2	Mar	+ 5.3	Mar	5.4	Apr†	4.6
Switzerland	nil	Q4	+ 1.8	+ 1.6	+ 1.8	+ 1.7	Q4	+ 5.4	Mar	3.9	Apr†	3.6
United States	+ 4.9	Q1	+ 4.2	+ 4.7	+ 3.6	+ 4.8	Apr	+ 8.0	Apr	5.6	Apr	6.0
Euro area	+ 1.3	Q1	+ 2.4	+ 1.6	+ 2.0	+ 1.0	Mar	+ 0.9	Mar	8.8	Mar	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.6	Q4	+ 1.1	na	na	nil	Mar	+ 4.8	Mar	10.6	Apr†	10.4
Greece	+ 4.1	Q1	+ 3.0	na	na	+ 3.8	Mar	+ 6.4	Feb	na		na
Iceland	+ 4.9	Q4	na	na	na	– 0.3	2002	na		3.5	Mar†	4.0
Ireland	+ 2.7	Q4	na	na	na	+ 5.9	Mar	+ 5.0	Mar	4.4	Apr	4.4
Luxembourg	+ 1.3	2002	na	na	na	– 1.2	Dec	+ 3.9	Dec	4.3	Mar	3.7
New Zealand	+ 3.2	Q4	+ 2.4	na	na	+ 3.2	Q4	+ 8.0	Q1	4.3	Q1	4.9
Norway	+ 0.5	Q4	+ 2.4	na	na	+ 5.9	Mar	+ 7.6	Mar	4.5	Q1	4.4
Portugal	– 0.5	Q4	– 1.0	na	na	– 4.5	Feb	+ 2.7	Mar	6.4	Q1†	6.4

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Dec-Feb; claimant count rate 2.9% in Apr. §EU harmonised rate 9.3% in Mar. **Feb-Apr.

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Prices and wages

May 27th 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.0	Q1	+ 3.4	+ 2.2	+ 2.5	– 1.1	Q1	+ 3.0	+ 5.1	Q1	+ 4.4
Austria	+ 1.6	May	+ 1.1	+ 1.3	+ 1.4	+ 5.2	Apr	+ 0.8	+ 2.1	Mar	+ 2.2
Belgium	+ 1.9	Apr	+ 1.5	+ 1.4	+ 1.5	+ 2.6	Apr	+ 0.2	+ 1.9	Q1	+ 2.4
Britain	+ 1.2	Apr*	+ 1.5	+ 1.5	+ 1.8	+ 1.8	Apr	+ 1.6	+ 5.2	Mar†	+ 3.3
Canada	+ 1.6	Apr	+ 3.0	+ 1.6	+ 2.0	– 1.4	Mar	+ 1.7	+ 3.1	Feb	+ 2.2
Denmark	+ 0.8	Apr	+ 2.5	+ 1.4	+ 2.0	+ 1.6	Apr	– 0.5	+ 3.7	Q4	+ 3.9
France	+ 2.1	Apr	+ 2.0	+ 1.9	+ 1.6	+ 0.1	Mar	+ 2.1	+ 2.7	Q4	+ 3.5
Germany	+ 2.1	May	+ 0.7	+ 1.2	+ 1.1	+ 2.4	Apr	– 3.8	+ 1.4	Mar	+ 3.6
Italy	+ 2.3	Apr	+ 2.7	+ 2.2	+ 2.1	+ 0.6	Mar	+ 2.8	+ 2.8	Mar	+ 1.7
Japan	– 0.1	Mar	– 0.1	– 0.2	nil	+ 0.5	Apr	– 0.8	+ 1.8	Mar	+ 2.7
Netherlands	+ 1.4	Apr	+ 2.1	+ 1.3	+ 1.3	+ 0.6	Dec	+ 4.2	+ 1.8	Mar	+ 3.2
Spain	+ 2.7	Apr	+ 3.1	+ 2.3	+ 2.4	+ 2.6	Apr	+ 1.4	+ 3.3	Q4	+ 3.9
Sweden	+ 0.3	Apr	+ 2.3	+ 0.8	+ 1.6	– 1.4	Mar	+ 0.6	+ 2.9	Feb	+ 2.2
Switzerland	+ 0.5	Apr	+ 0.7	+ 0.4	+ 0.8	+ 0.7	Apr	– 0.3	+ 1.8	2002	+ 2.5
United States	+ 2.3	Apr	+ 2.2	+ 1.9	+ 1.8	+ 3.7	Apr	+ 2.4	+ 2.2	Apr	+ 3.0
Euro area	+ 2.0	Apr	+ 2.1	+ 1.7	+ 1.6	+ 0.4	Mar	+ 2.4	+ 2.5	Q4	+ 3.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	– 0.4	Apr	+ 1.1	na	na	+ 0.3	Apr	– 0.3	+ 3.7	Q4	+ 4.1
Greece	+ 2.9	Apr	+ 3.4	na	na	+ 1.9	Mar	+ 2.0	na		na
Iceland	+ 3.2	May	+ 2.2	na	na	+ 5.0	May	+ 3.0	+ 4.0	Apr	+ 5.6
Ireland	+ 1.4	Apr	+ 4.3	na	na	– 4.1	Apr	– 7.5	+ 6.1	Q4	+ 6.4
Luxembourg	+ 2.1	Apr	+ 2.2	na	na	+ 0.1	Dec	+ 1.3	– 0.4	Dec	+ 0.7
New Zealand	+ 1.5	Q1	+ 2.5	na	na	– 0.1	Q4	– 1.4	+ 2.2	Q1	+ 2.3
Norway	+ 0.4	Apr	+ 2.9	na	na	+12.2	Apr	– 4.9	+ 3.9	Q4	+ 5.2
Portugal	+ 2.3	Apr	+ 3.7	na	na	+ 1.1	Apr	+ 2.0	+ 2.6	Mar	– 2.6

*New series. RPI inflation rate in April: 2.5%.

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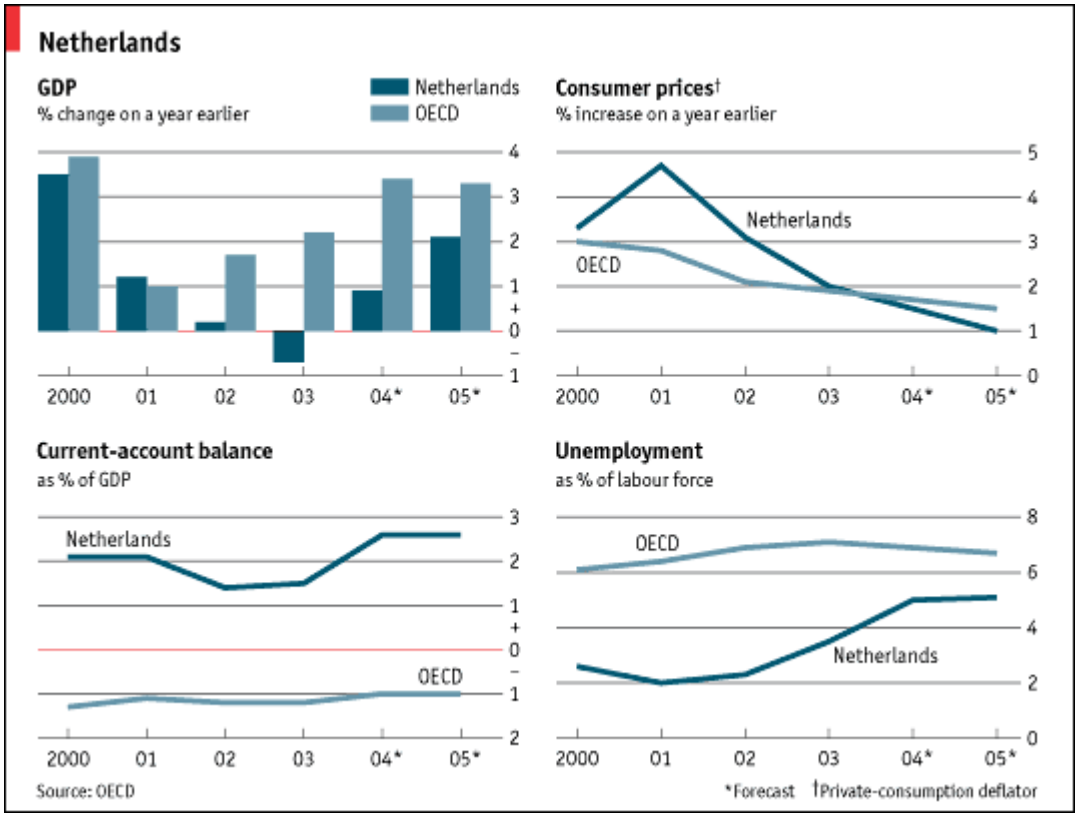
Netherlands

May 27th 2004
From The Economist print edition



The Dutch economy has gone through a severe boom-and-bust cycle during the past five years. This was thanks mostly to the country's high reliance on international trade and its sensitivity to global financial markets. Although the OECD expects growth to hit 2.1% during 2005, it will remain well below the average of rich countries. The OECD says that there is much that the Netherlands can do to make its economy more efficient. The housing market, a big source of economic volatility, is beset by strict planning controls that worsen price swings. Loosening these, as well as reducing tax subsidies for owner-occupied housing, could calm house prices. Reform of the Dutch labour market is badly needed. Nearly one working-age Dutch person in ten receives disability benefit. Stricter eligibility rules for these payments, to be introduced in 2006, could help boost output.

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Money and interest rates

May 27th 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (May 26th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.0	+13.9	Mar	5.47	4.78	5.27	5.96	4.92	6.78
Britain	+ 7.1	+ 7.7	Mar	4.56	3.56	4.84	5.11	4.10	5.88
Canada	+12.6	+ 8.6	Apr	2.00	3.16	3.07	5.05	4.59	6.31
Denmark	+ 8.1	+10.6	Mar	2.25	2.53	2.58	4.44	3.97	5.48
Japan	+ 4.1	+ 1.9	Apr	0.02	0.02	0.14	1.47	0.53	1.56
Sweden	+ 0.5	+ 2.2	Mar	1.94	3.04	2.95	4.61	4.22	3.05
Switzerland	+ 9.9	+ 4.1	Apr	0.27	0.28	1.13	2.75	2.26	2.57
United States	+ 6.8	+ 4.9	Apr	1.09	1.19	2.45	4.64	3.41	6.11
Euro area†	+11.4	+ 6.3	Mar	2.09	2.29	2.52	4.24	3.74	4.09

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.37%, Japan No. 259 1.46%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.25%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

May 27th 2004
From The Economist print edition

1995=100

	May 18th	May 25th*	% change on one month	% change on one year
Dollar index				
All items	94.7	96.0	– 2.3	+24.5
Food	94.0	94.4	– 2.8	+19.4
Industrials				
All	95.7	98.2	– 1.8	+32.0
Nfa†	96.9	96.1	– 1.6	+26.6
Metals	94.7	99.9	– 1.9	+36.7
Sterling index				
All items	84.4	83.6	– 3.5	+12.9
Euro index				
All items	104.1	104.3	– 3.9	+22.1
Yen index				
All items	115.2	114.6	– 0.1	+19.5
Gold				
$ per oz	377.25	387.75	– 2.1	– 2.1
West Texas Intermediate				
$ per barrel	40.38	41.14	+ 9.7	+ 9.7

* Provisional. † Non-food agriculturals.

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Stockmarkets

May 27th 2004
From The Economist print edition

Market indices

	May 26th	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,422.3	3,462.9	3,274.9	+ 1.0	– 1.2	+ 3.5	– 2.9
Austria (ATX)	1,843.8	1,985.9	1,568.9	+ 0.6	– 7.2	+19.3	+14.4
Belgium (Bel 20)	2,422.6	2,517.3	2,244.2	+ 0.4	–34.2	+ 7.9	+ 3.5
Britain (FTSE 100)	4,438.3	4,575.7	4,309.4	– 0.7	–36.0	– 0.9	+ 0.5
Canada (Toronto Composite)	8,319.0	8,898.8	8,123.5	+ 1.5	–27.0	+ 1.2	– 4.7
Denmark (KBX)	223.2	241.3	219.0	– 1.1	–26.0	+ 4.5	+ 0.3
France (SBF 250)	2,489.5	2,594.4	2,411.5	+ 0.5	–43.3	+ 3.2	– 1.0
(CAC 40)	3,659.9	3,811.4	3,465.3	+ 0.5	–47.1	+ 2.9	– 1.4
Germany (DAX)	3,867.5	4,151.8	3,726.1	– 0.1	–52.0	– 2.5	– 6.5
Italy (BCI)	1,285.6	1,340.3	1,239.5	– 0.4	–41.1	+ 2.3	– 1.9
Japan (Nikkei 225)	11,152.1	12,163.9	10,365.4	+ 1.7	–71.3	+ 4.5	+ 0.3
(Topix)	1,127.2	1,217.9	1,022.6	+ 1.9	–60.9	+ 8.0	+ 3.7
Netherlands (AEX)	334.5	364.8	323.0	+ 0.5	–52.3	– 0.9	– 5.0
Spain (Madrid SE)	834.0	881.7	808.0	+ 0.4	–27.2	+ 3.2	– 1.0
Sweden (Affarsvarlden Gen)	197.6	218.1	188.5	– 0.6	–50.6	+ 4.9	+ 0.4
Switzerland (Swiss Market)	5,671.7	5,934.4	5,469.0	– 0.7	–32.6	+ 3.4	+ 0.4
United States (DJIA)	10,109.9	10,737.7	9,906.9	+ 1.7	–13.8	– 3.3	– 3.3
(S&P 500)	1,115.0	1,157.8	1,084.1	+ 2.4	–27.0	+ 0.3	+ 0.3
(NASDAQ Comp)	1,976.2	2,153.8	1,876.6	+ 4.1	–60.9	– 1.4	– 1.4
Europe (FTSE Eurotop 300)*	982.9	1,026.2	957.9	nil	–42.4	+ 2.6	– 1.6
Euro area (FTSE Ebloc 100)*	828.2	888.3	806.7	nil	–46.6	– 0.4	– 4.5
World (MSCI)†	1,033.0	1,085.8	997.0	+ 1.9	–28.7	– 0.3	– 0.3
World bond market (Citigroup)‡	588.7	619.5	575.1	+ 0.9	– 5.0	– 2.5	– 2.5

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

May 27th 2004
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	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2004	2005	Exchange rate trade-weighted† 1990=100 May 26th	year ago	Currency units per $ May 26th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2004‡
Australia	− 17.0	Mar	− 30.0	Q4	− 5.2	− 4.5	84.6	81.0	1.42	1.54	2.57	1.71	1.27	0.5
Austria	+ 1.0	Mar	− 1.3	Mar	− 0.3	− 0.6	103.1§	102.0	0.83	0.85	1.50	–	0.74	-1.3
Belgium	+ 22.1	Mar	+ 8.0	Dec	+ 3.7	+ 3.8	103.2§	102.0	0.83	0.85	1.50	–	0.74	-0.2
Britain	− 83.3	Mar	− 30.8	Q4	− 2.5	− 2.5	105.5	97.6	0.55	0.61	–	0.67	0.49	-2.9
Canada	+ 45.2	Mar	+ 18.5	Q4	+ 1.7	+ 1.1	84.2	84.2	1.37	0.85	2.49	1.66	1.23	1.2
Denmark	+ 9.8	Mar	+ 6.4	Mar	+ 2.5	+ 2.4	106.1	107.0	6.15	6.32	11.2	7.44	5.51	0.9
France	+ 4.9	Mar	+ 10.0	Mar	+ 1.0	+ 0.9	106.8§	105.2	0.83	0.85	1.50	–	0.74	-3.8
Germany	+166.7	Mar	+ 63.3	Mar	+ 2.4	+ 2.4	104.5§	102.5	0.83	0.85	1.50	–	0.74	-3.7
Italy	+ 2.0	Mar	− 18.6	Mar	− 0.9	− 1.0	76.2§	75.0	0.83	0.85	1.50	–	0.74	-3.1
Japan	+118.0	Mar	+153.2	Mar	+ 3.2	+ 3.2	132.6	127.1	112	119	202	135	–	-7.1
Netherlands	+ 32.4	Mar	+ 18.7	Q1	+ 2.3	+ 2.5	102.7§	101.4	0.83	0.85	1.50	–	0.74	-3.1
Spain	− 54.8	Feb	− 25.3	Feb	− 2.9	− 2.9	77.2§	76.4	0.83	0.85	1.50	–	0.74	0.3
Sweden	+ 20.7	Mar	+ 21.2	Q1	+ 5.6	+ 5.4	81.4	81.3	7.52	7.78	13.6	9.09	6.74	0.2
Switzerland	+ 7.9	Apr	+ 32.9	Q4	+10.3	+10.1	112.5	114.2	1.27	1.30	2.31	1.54	1.14	-1.6
United States	−560.4	Mar	−540.9	Q4	− 5.1	− 5.0	98.5	102.7	–	–	1.81	1.21	0.90	-4.7
Euro area	+ 98.2	Mar	+ 47.6	Mar	+ 0.5	+ 0.4	90.1	91.8	0.83	0.85	1.50	–	0.74	-2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 15.0	Mar	+ 10.9	Mar	na	na	82.3§	81.0	0.83	0.85	1.51	–	0.74	1.6
Greece	− 26.8	Mar	− 10.3	Mar	na	na	59.7§	59.0	0.83	0.85	1.51	–	0.74	-3.2
Iceland	− 0.3	Mar	− 0.6	Q4	na	na	98.6**	97.7	72.3	72.4	131	87.5	64.8	0.2
Ireland	+ 41.0	Feb	− 3.0	Q4	na	na	94.4§	93.0	0.83	0.85	1.51	–	0.74	-0.5
Luxembourg	− 3.6	Feb	+ 2.5	Q4	na	na	103.2§	102.0	0.83	0.85	1.51	–	0.74	-1.8
New Zealand	− 2.3	Mar	− 3.5	Q4	na	na	99.6	97.3	1.62	1.74	2.93	1.96	1.45	2.9
Norway	+ 28.2	Apr	+ 29.7	Feb	na	na	97.8	102.6	6.78	6.72	12.3	8.20	6.08	10.4
Portugal	− 14.2	Feb	− 8.1	Feb	na	na	94.0**	92.5	0.83	0.85	1.51	–	0.74	-3.8

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, March average. ‡OECD forecast. **IMF, February average.

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Stockmarkets

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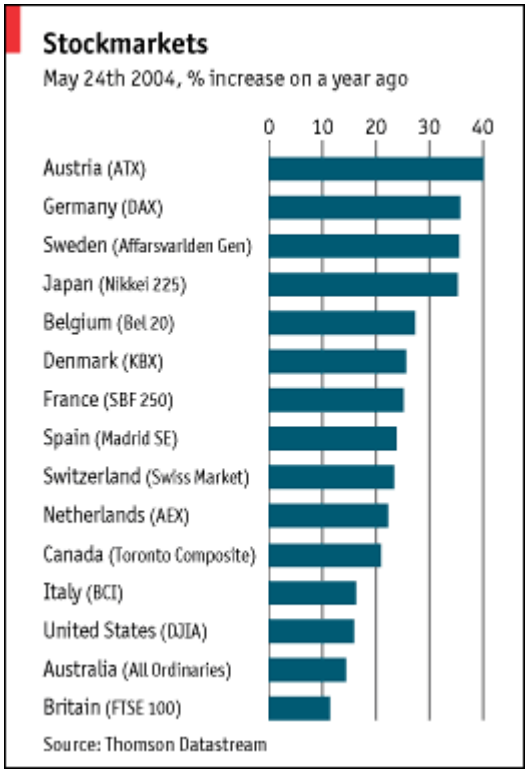

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Overview

May 27th 2004
From The Economist print edition

South Korea's GDP growth accelerated to 5.3% in the year to the first quarter, from 3.9% in the year to the fourth quarter. **Malaysia's** GDP growth rate rose to 7.6% from 6.6% over the same period; **Indonesia's** rate also rose, to 4.5% from 4.1%.

South Africa saw much more modest growth of only 1.9% in the year to the first quarter. The country's 12-month rate of consumer-price inflation fell to 0.2% in April.

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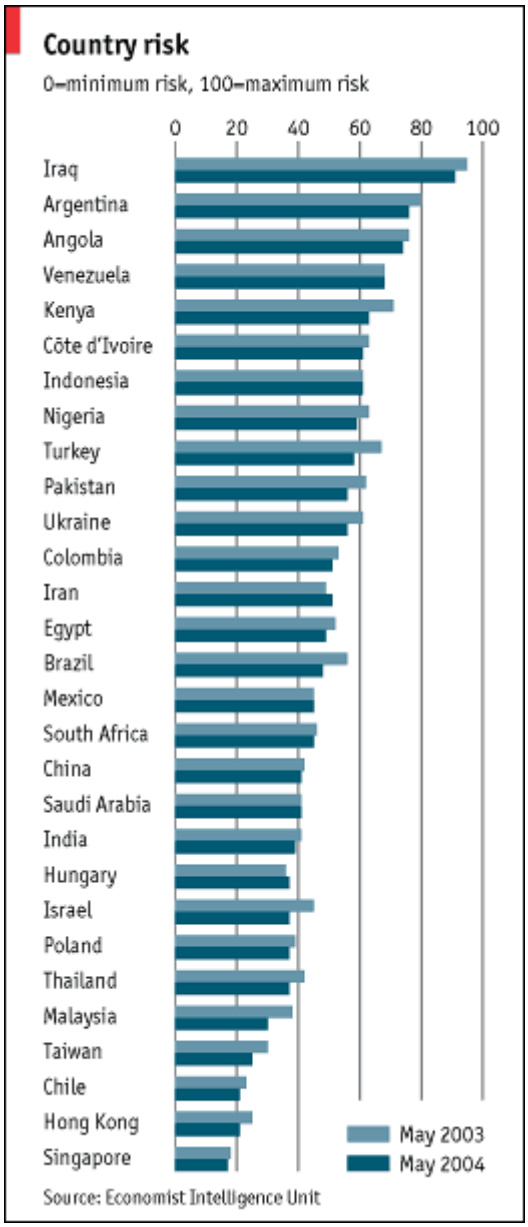
Country risk

May 27th 2004
From The Economist print edition

Most emerging markets have become less risky during the past year, according to the latest country-risk analysis by the Economist Intelligence Unit, a sister organisation of *The Economist*. The rankings combine measures of political risk (such as the threat of war) and economic risk (such as the size of fiscal deficits). They also include measures that affect a country's liquidity and solvency (eg, its debt structure and foreign-exchange reserves). Not surprisingly, Iraq ranks as the most dangerous country, scoring 91 out of 100. High oil prices have helped improve the risk score for several oil producers, such as Angola.



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Economy

May 27th 2004
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.8	Q1	+19.1	Apr	+ 3.8	Apr	+14.7	Apr	+45.9	2003	439.8	Mar
Hong Kong	+ 5.0	Q4	– 6.1	Q4	– 1.5	Apr	–10.3	Mar	+17.4	Q4	122.1	Apr
India	+10.4	Q4	+ 6.7	Mar	+ 3.5	Mar	–15.6	Apr	+ 3.2	Q4	113.0	Apr
Indonesia	+ 4.5	Q1	+ 5.1	Jan	+ 5.9	Apr	+28.3	Mar	+ 7.8	Q3	36.1	Mar
Malaysia	+ 7.6	Q1	+13.2	Mar	+ 1.0	Apr	+20.6	Mar	+12.3	Q4	53.4	Apr
Philippines	+ 6.4	Q1	–11.0	Mar	+ 4.1	Apr	– 1.7	Mar	+ 3.3	Dec	13.4	Apr
Singapore	+ 7.5	Q1	+22.2	Apr	+ 1.3	Apr	+15.5	Apr	+27.6	Q1	99.1	Apr
South Korea	+ 5.3	Q1	+11.6	Mar	+ 3.3	Apr	+25.1	Apr	+20.4	Mar	163.6	Apr
Taiwan	+ 6.3	Q1	+12.8	Apr	+ 0.9	Apr	+15.2	Apr	+27.4	Q1	227.7	Apr
Thailand	+ 7.8	Q4	+ 7.9	Mar	+ 2.5	Apr	+ 3.4	Mar	+ 7.6	Mar	41.9	Mar
Argentina	+11.3	Q4	+ 6.0	Apr	+ 3.1	Apr	+14.2	Mar	+ 7.9	Q4	15.8	Apr
Brazil	– 0.1	Q4	+11.9	Mar	+ 5.3	Apr	+27.4	Apr	+ 5.9	Apr	51.6	Mar
Chile	+ 4.8	Q1	+ 7.8	Mar	– 0.3	Apr	+ 5.0	Apr	– 0.1	Q1	16.0	Mar
Colombia	+ 4.3	Q4	+ 7.1	Mar	+ 5.5	Apr	+ 0.2	Feb	– 1.4	Q4	11.3	Apr
Mexico	+ 3.7	Q1	+ 6.4	Mar	+ 4.2	Apr	– 5.7	Apr	– 9.1	Q1	61.6	Mar
Peru	+ 5.5	Mar	+ 7.9	Mar	+ 2.8	Apr	+ 1.3	Mar	– 0.6	Q1	9.7	Mar
Venezuela	+29.8	Q1	+33.4	Feb	+23.1	Apr	+17.8	Q1	+12.3	Q1	17.2	Feb
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.5	Dec	– 6.0	Q4	+ 3.9	Q4	13.6	Feb
Israel	– 0.6	Q4	+10.9	Mar	– 1.5	Apr	– 5.4	Apr	– 0.2	Q4	27.0	Apr
South Africa	+ 1.9	Q1	+ 3.1	Mar	+ 0.2	Apr	+ 2.0	Mar	– 1.5	Q4	8.6	Apr
Turkey	+ 6.1	Q4	+14.9	Mar	+10.2	Apr	–23.7	Feb	– 9.0	Mar	32.9	Mar
Czech Republic	+ 3.1	Q4	+15.3	Mar	+ 2.3	Apr	– 2.5	Apr	– 5.7	Q4	26.1	Apr
Hungary	+ 3.6	Q4	+12.8	Mar	+ 6.9	Apr	– 3.9	Mar	– 6.5	Mar	10.0	Apr
Poland	+ 4.7	Q4	+21.9	Apr	+ 2.2	Apr	– 5.5	Mar	– 2.9	Mar	35.3	Mar
Russia	+ 8.0	Q1	+ 6.7	Apr	+10.3	Apr	+63.3	Mar	+35.3	Q1	78.9	Apr
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.7	Q4	+ 5.2	Mar	+ 1.3	Apr	– 2.0	Mar	– 1.2	Q1	1.3	Mar
Latvia	+ 7.4	Q4	+14.8	Mar	+ 5.0	Apr	– 2.2	Mar	– 1.1	Mar	1.4	Mar
Lithuania	+ 7.5	Q1	na		– 0.6	Apr	– 2.8	Mar	– 1.2	Q4	3.4	Mar
Slovakia	+ 4.7	Q4	+ 9.6	Mar	+ 8.0	Apr	– 0.5	Mar	nil	Mar	11.7	Mar
Slovenia	+ 2.5	Q4	+ 7.8	Mar	+ 3.5	Apr	– 0.8	Mar‡	nil	Mar	8.6	Feb
Pakistan	+ 5.1	2003†	+18.7	Jan	+ 6.0	Apr	– 1.9	Apr	+ 2.4	Q1†	11.5	Mar
Saudi Arabia	+ 6.4	2003	na		+ 0.3	Mar	+42.6	2002	+11.9	2002	21.6	Mar

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

May 27th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	May 26th		Dec 31st 2003	
	May 26th	year ago	May 26th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.0	2.84	1,598.5	– 2.2	+ 1.9	+ 1.9
Hong Kong	7.79	7.80	14.1	0.50	11,692.6	+ 1.9	– 7.0	– 7.4
India	45.4	46.8	82.3	4.41	5,082.0	+ 1.7	– 13.0	– 12.5
Indonesia	9,250	8,325	16,783	7.51	718.0	+ 1.6	+ 3.8	– 5.5
Malaysia	3.80	3.80	6.89	2.95	799.3	+ 0.7	+ 0.7	+ 0.7
Philippines	55.9	52.6	101.5	7.81	1,507.7	+ 2.7	+ 4.5	+ 3.8
Singapore	1.71	1.73	3.11	0.81	1,776.7	+ 0.6	+ 0.7	– 0.1
South Korea	1,180	1,194	2,140	3.89	784.1	+ 0.8	– 3.3	– 2.3
Taiwan	33.4	34.6	60.6	1.10	6,027.3	+ 2.8	+ 2.3	+ 3.9
Thailand	40.8	42.0	74.0	1.29	609.6	– 0.9	– 21.1	– 23.3
Argentina	2.95	2.86	5.35	5.69	942.3	+ 5.2	– 12.1	– 12.7
Brazil	3.18	3.01	5.76	15.79	19,069.4	+ 1.9	– 14.2	– 22.1
Chile	639	711	1,159	1.68	7,168.1	nil	– 2.3	– 9.4
Colombia	2,759	2,914	5,006	7.76	2,908.8	– 2.8	+ 24.6	+ 25.6
Mexico	11.5	10.2	20.8	6.41	10,062.6	+ 3.0	+ 14.4	+ 12.2
Peru	3.49	3.49	6.33	2.47	2,878.3	+ 3.4	+ 18.2	+ 17.3
Venezuela	2,977§	1,598	5,402	14.72	24,949.4	+ 1.9	+ 12.4	+ 7.6
Egypt	6.19	5.96	11.23	10.50	14,569.6	+ 1.2	+ 25.2	+ 24.7
Israel	4.58	4.58	8.30	1.00	569.5	+ 1.3	+ 6.6	+ 2.4
South Africa	6.61	7.70	12.0	8.20	10,200.6	+ 1.1	– 1.8	– 0.8
Turkey	1,506,500	1,503,000	2,733,394	25.13**	17,235.5	+ 6.9	– 7.5	– 13.7
Czech Republic	26.2	26.9	47.6	2.22	770.2	+ 1.0	+ 16.9	+ 14.3
Hungary	208	210	377	11.44	11,098.8	– 0.1	+ 18.3	+ 18.2
Poland	3.83	3.74	6.95	6.00	23,290.7	+ 0.1	+ 11.9	+ 9.3
Russia	29.0	30.9	52.6	14.00	630.0‡	– 0.8	+ 10.1	+ 11.1
EMF (MSCI)*	1.00	1.00	1.81	na	426.2	+ 1.6	– 3.7	– 3.7
EMBI+†	1.00	1.00	1.81	na	281.0	+ 0.5	– 4.7	– 4.7

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate. **New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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